D+C

DIGITAL MONTHLY

DEVELOPMENT AND COOPERATION D+C

ENTWICKLUNG UND ZUSAMMENARBEIT E+Z

International Journal

ISSN 2366-7257

2022 12

FOOD SECURITY
Why Pakistan's floods have worsened need in the long run

INFERTILITY
How childless women are stigmatised in Nigeria

FREEDOM OF SPEECH
Why there is no democratic equality online

Fiscal space in multiple crisis

CONTENTS

www.DandC.eu
D+C Development and Cooperation
In German: E+Z Entwicklung und Zusammenarbeit

Editorial

Magazine

Debate

Focus: Fiscal space in multiple crisis

FOCUS

Fiscal space in multiple crisis

Governments around the world must rise to many huge challenges. Their budgets are tight, however, and especially policymakers in developing countries lack the money they need to tackle issues such as food security or adaptation to global warming decisively. Inflation is making everything even more difficult. Core challenges include raising taxes, preventing – and if necessary dealing with – sovereign default, international transfers and effective multilateral cooperation.

Photo: picture-alliance/Ulrich Baumgarten

Our focus section on fiscal space in multiple crisis starts on page 19. It pertains to the UN's eighth Sustainable Development Goal (SDG): decent work and economic growth. It also has a bearing on other SDGs.

When states prove too small, they need more fiscal space

Our era is one of unprecedented market failure. Global heating and the erosion of ecosystems result from buyers and sellers not bearing the costs that the external impacts of their self-serving transactions cost. The consequences are endangering our species' future. Governments must thus regulate markets, invest in eco-friendly infrastructure and, where possible, repair damages.

Some still believe that markets always deliver the best results, so government interventions must be limited to the bare minimum. This distorted worldview has been very powerful since the early 1980s. Back then, Britain's Prime Minister Margaret Thatcher was a protagonist of the paradigm shift towards the "small" state. Now the short tenure of Liz Truss in the same office may prove to be another turning point.

In Thatcher's tradition, Truss wanted to impress financial markets by cutting taxes. To provide essential services, she planned to increase sovereign debt. She hoped that policy would attract investors to Britain. Instead, the markets she wanted to please rejected her reckless approach. To stabilise the pound, the central bank had to raise interest rates drastically, making real-economy investments in Britain less attractive. Higher borrowing costs, moreover, now exacerbate Britain's budget constraints.

The international community faces multiple crises, which are reinforced by inflation. The Covid-19 pandemic was disruptive, and Russia's invasion of Ukraine has compounded problems. We have seen how costly the neglect of health care and pandemic preparedness can be. The war, moreover, ended any notion of the peace dividend that the end of the Cold War offered.

Growing need makes social-protection spending more important. Military spending is going up in many places too. Subsidies to help businesses survive in difficult times are indispensable as well. National budgets are stretched accordingly. Sovereign debt has increased fast in many places. While things are especially desperate in developing countries, all governments currently lack the fiscal space they need. Prudent taxation, risks of sovereign default and looming implications deserve attention. How to keep urgent investments feasible in spite of rising interest rates is an important question too.

The key to solving global problems is international cooperation. Unfortunately, the complex and fragmented landscapes of multilateral institutions is not up to task. These institutions report to national governments, and an individual country can sabotage global consensus. As the sense of rivalry between major powers has grown, multilateral policymaking will remain incremental and piecemeal.

It bears repetition that the nationalist egotism that motivates Russia's imperialist war in Ukraine is unacceptable. It is compounding all other global problems and thus amounts to an attack on all of humankind.

Nationalist egotism of the Brexit variety has proven harmful too, of course. The campaign to leave the EU was an example of plutocrat populism, sponsored by super-rich individuals who made people believe they were worse off due to the EU's pooling of sovereignty. What those oligarchs really resented was coordinated regulation across the EU, which protects people and the environment from market dynamics' external effects. They hoped Brexit would result in race to the regulatory bottom. Financial markets did well to put a break on it.

We do not need small states. We need competent and responsible governments.

HANS DEMBOWSKI
is editor-in-chief of D+C Development and Cooperation / E+Z Entwicklung und Zusammenarbeit.

euz.editor@dandc.eu

Photo: picture-alliance/ASSOCIATED PRESS/Mast Irham

Iwan J. Azis found the G20 summit in Bali in November more encouraging than he had expected. He is a professor at Cornell University's Dyson School of Applied Economics and Management. His main topic is emerging markets. He is also a visiting professor at the University of Indonesia in Jakarta. In this issue of D+C/E+Z he takes stock of the G20 summit (page 20). He participated in G20 related events as an adviser to Indonesia's central bank and deposit insurance companies.

All contributions to our focus section will also appear on our website www.dandc.eu, where you will find other related content as well.

EXTREME WEATHER

Climate-driven crisis

This summer's catastrophic floods will have a long-term effect on food production, people's health and their livelihoods in Pakistan. Even before this extreme-weather event, about 40 % of Pakistan's 222 million people had suffered food insecurity.

By Imran Mukhtar

This summer's devastating floods have caused massive damage in Pakistan. By mid-October, the losses amounted to more than $30 billion, and at least 1700 people had died. According to the national government's assessment, 2.3 million houses and more than 13,000 kilometres of road were washed away or damaged. At least 7.9 million people have been displaced, according to the UN.

Agriculture was painfully hit. The water destroyed standing crops throughout the country, so the supply of food items has decreased. This applies to vegetables, fruit and cereals. Soaring food prices mean that many people can no longer afford to buy what they need.

The disaster affected about 2.6 million hectares of cultivated land, according to a report published by the UN Food and Agriculture Organization (FAO). That was a bit more than one third of the country's agricultural land. Cotton production suffered too. This is an important export commodity, on which masses of livelihoods depend.

Parts of the territory were still inundated in early October. Farmers in those areas were not able to sow wheat and other crops for the next season.

The floods have also destroyed irrigation infrastructure, machinery, seed stocks and fertiliser stores in many places. Because of the shortfalls, farms will become less productive. The FAO states that production forecasts for rice, maize, sorghum and millets need downward revisions.

Farmers lost 1.2 million livestock animals moreover. Accordingly, milk and meat have become scarcer – compounding nutrition problems. Protein-rich food has become more costly after all, with reduced supply exacerbating the inflation problem the nation was facing even before extraordinarily heavy monsoon rains inundated the country from mid-June on.

It was not the first extreme weather calamity this year. Abid Qaiyum Suleri of the Sustainable Development Policy Institute (SDPI), an independent Islamabad-based think tank, says that heat waves earlier in the year had already caused a 30 % decline in the expected wheat yield.

In his eyes, the floods broke the back of the economy however. Food security in particular has deteriorated. As Suleri points out, it depends on three things:

- supply must be sufficient,
- people must have adequate purchasing power, and
- their bodies must be able to absorb food.

The climate crisis, he argues, is affecting all three. As poorer harvests reduce supply, rising food prices overwhelm ever more people's spending ability. Moreover, clean drinking water is not available in many flood affected areas, causing people to disturb their digestive systems and thus affecting their ability to absorb food. Suleri reckons it will take five months to restore access to clean drinking water in the populous southern province of Sindh.

Collecting damaged apples in an orchard near Quetta, Pakistan.

Photo: picture-alliance/ASSOCIATED PRESS/Arshad Butt

PUBLIC-HEALTH CRISIS

Waterborne diseases have spread fast. The World Health Organization (WHO) estimated in October that around 8 million people needed essential health assistance. Stagnant water and inadequate sanitation provided breeding opportunities for mosquitos. From July to October, according to Richard Brennan of the WHO, over 540,000 malaria cases were reported. Diarrhoea is another serious health threat. There have been outbreaks of dengue fever, measles and diphtheria. Brennan also expresses concern about the high rates of acute malnutrition. Especially women and girls are ex posed to disaster impacts (see Sundus Saleemi on page 28 of this Digital Monthly).

For 2021, the US Department of Agriculture estimated that not quite 40 % of the people suffered food insecurity. According to government data, some 55 million Pakistanis lived below the poverty line at the start of this year. The World Bank reckons that the flood disaster may ultimately push the number up by another 9 million.

Poor governance is a long standing issue in Pakistan. Too little was done to prepare the country for the climate crisis. Pakistan did little to cause global heating, but its impacts are now compounding each and every pre-existing problem (see box on page 29).

IMRAN MUKHTAR
is an Islamabad-based Journalist.
imranmukhtar@live.com
Twitter: @imranmukhtar

CLIMATE CRISIS

Time is running out

The UN Environment Programme (UNEP) warns that the window to control global warming is closing fast. Its new Emissions Gap Report amounts to a call for the rapid transformation of societies. At current trends, humankind is set to cause an average temperature rise of 2.8 degrees, far above the 1.5 degree threshold spelled out in the Paris Agreement on Climate Change in 2015.

By Suparna Banerjee

The international community is not on track. The nationally determined contributions (NDCs) to mitigating the climate crisis, which sovereign governments had submitted to the UN before this year's summit in Egypt, will only reduce projected global greenhouse-gas emissions enough to keep global warming just under 2.8 degrees in this century. To fulfil the multilateral agreement, emissions must go down 45% below than what currently pledged national policies would deliver.

The report emphasises that incremental changes are not enough. Comprehensive economy-wide transformations are required. The authors state that the global response to the Covid-19 pandemic led to a massive, but short lived reduction in global emissions in 2020. In 2021 they rebounded to 2019 levels.

Greenhouse gas (GHG) emissions are highly uneven across regions. About 55% of global emissions result from international transport and the top seven emitters, which are China, the EU, India, Indonesia, Brazil, the Russian Federation and the USA (not in that order). According to UNEP, it is the G20 members who are especially far behind in delivering on their climate mitigation commitments.

By early November, 88 sovereign governments have adopted net-zero targets, which basically means they set a timeline by when they will no longer emit GHG which they cannot capture or compensate for, the report states. They account for 79% of global emissions. Another 19 governments have pledged to adopt such a target. The problem is that things are happening too slowly. Emissions must be phased out faster than promised, according to UNEP.

The UNEP experts point out that change is particularly urgent in four sectors:

- electricity supply,
- industry,
- transport and
- buildings.

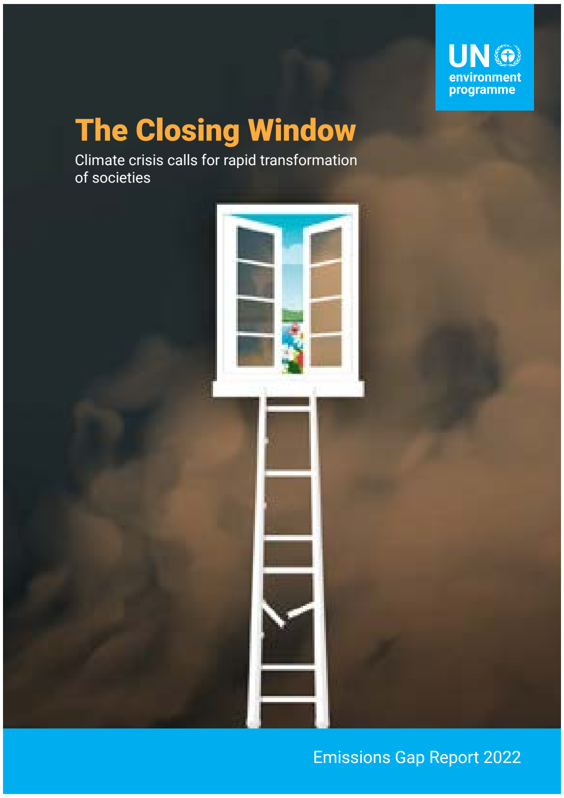
According to UNEP, most progress has been made in the power sector because the costs of renewables technology has declined fast. For building operations and road transport, efficient technologies exist too, but must be adopted. New technologies are needed in ship transport and aviation, zero emission technologies need further development. The UNEP reports recommends three strategic approaches:

- Avoid building new infrastructure that will require fossil-fuel use for many years or even decades.
- Promote the development of new zero-carbon technologies.
- Apply those technologies.

Moreover, UNEP calls for change in agriculture, which is not only a driver of global warming but also contributes to the dwindling of biodiversity. Eco-friendly reforms are indispensable.

According to the authors, the financial system must be geared to promote the massive structural changes they consider to be necessary. They identify six approaches:

- Financial investors need better information on climate risks if they are to make more environment-friendly decisions. Raising awareness and stronger institutional guidelines can serve that purpose.
- Carbon pricing can be done with carbon taxes, which are levied on emissions, or cap-and-trade systems, which set a maximum level of emissions subsequently letting companies bid for amount of fossil fuels that correspond to that level. Both give investors incentives to keep emissions low.
- Financial markets are marked by incomplete asymmetry, risk aversion and herd behaviour. Taxation and regulations can change investor attitudes and influence investors in a positive way.
- Market incentives matter. Public policies can create new markets for low-carbon technology and encourage innovation through public finance. Multilateral banks can support this approach.
- Central banks and financial regulators should modify their policies in ways that encourage eco-friendly investments and discourage harmful ones.
- Set up climate clubs and cross-border finance initiatives.



Title of the Emissions Gap Report.

Source: https://www.unep.org/resources/emissions-gap-report-2022

LINK

UNEP, 2022: Emissions Gap Report 2022.
https://www.unep.org/resources/emissions-gap-report-2022

SUPARNA BANERJEE
is a Frankfurt-based political scientist.
mail.suparnabanerjee@gmail.com

REPRODUCTIVE HEALTH

Be fruitful and multiply

For most married couples, having a baby is a blessed event. In Nigeria it is also a social imperative. Infertile couples face harassment and ostracism, with the wives bearing most of the brunt of social disapproval.

By Bimbola Oyesola

In many parts of Africa, infertility in a married couple is considered a major problem, if not calamity. In Nigeria, the pressure on couples to produce children is intense.

Newlyweds are expected to have their first child nine months after their wedding. If a couple has not had a child within two years of marriage, family and friends become concerned. Typically they offer overbearing and unsolicited help and advice. These suggestions tend to invade the couple's privacy. Adoption, however, is rarely considered an option.

In many world regions, abortion and contraceptives are seen to be core issues of women's reproductive-health rights (see Virginia Caballero and María Lía Ghezzi in D+C/E+Z Digital Monthly 2021/12). The ability to have children, however, matters just as much, especially in places where many people cannot afford the attention of scientifically trained doctors and the evidence-based treatments they offer. Not having a baby can mean social ostracism.

"I could write a whole book on what I went through," says Iyabo Arepo, a Nigerian in her late 50s. She recalls her husband's uncle discussing the couple's childlessness with her husband five years after the wedding. "He sarcastically asked my husband what his problem is. And then he said, 'if the problem is with your wife, then you should take a different wife.' It was horrible."

Such experiences are common, not only in Nigeria. According to the World Health Organization (WHO), up to 186 million people around the world suffer from infertility. It is a disease of the male or female reproductive system defined by the failure to achieve a pregnancy after 12 months or more of regular unprotected sexual intercourse.

The causes of infertility vary by region. In Africa, over 85 % of infertility cases involve infections, compared to 33 % worldwide, according to the WHO. Other factors include poor nutrition, untreated sexually transmitted diseases and a prior history of at least one unsafe abortion. In about half of infertility cases, the husband's low sperm count is a factor.

Traditional Yoruba art: a wooden maternity figure.

Photo: picture-alliance/Heritage Images/Werner Forman Archive

Whatever the cause of a couple's infertility, the stigma tends to attach to the wife in Nigeria. Yetunde, for example, has been married for ten years without producing a child. She is the target of the disapproval of her husband's family. They call her names, including "male dog" and "unproductive pawpaw". A "pawpaw" is a fruit containing seeds. The family is Christian, but members nonetheless sometimes suggest calling upon supernatural powers to help the couple have a baby (see box next page).

At one point, Yetunde's mother-in-law brought a young woman into their home and bluntly told Yetunde's husband John that this woman would bear him a child. Yetunde and John left the country, but they still get calls from relatives asking whether Yetunde is pregnant yet. In some people's eyes, a wife that does not bear children is neither a real wife nor a proper woman.

Yetunde was lucky to have the support of John. It is quite common for husbands to turn away from their wives. Grace, an infertile Nigerian, paid dearly. Her husband, Olumide, made another woman pregnant. Grace learned of the affair when a friend told her about the baby's naming ceremony. Grace fainted from shock and her blood pressure shot up to dangerous levels. She died two days later.

In some parts of Africa, a marriage is conditional upon producing a child. In Nigeria, some men insist that the bride be pregnant before the marriage. This is particularly common among the Yoruba community. Tunde Itiola, for example, felt let down when he married and then his wife did not conceive. "I should have made sure that she gets pregnant before the marriage," he says.

Women who give birth but then lose the child are not spared the stigma. Chinwe, married to Tochukwu, had a daughter late in life. The daughter died when the couple were already over 50. Despite their age, the pair is considering in-vitro fertilisation in the hope of conceiving again. To them, the risks of a late pregnancy look less onerous than bearing the stigma of infertility.

MALE INFERTILITY

As noted above, in half the cases of infertility, the husband's low sperm count is a crucial problem. The wife may not have any reproductive-health problem at all. Nonetheless, the wife tends to get blamed, in some cases to the point of being driven out of her own home.

Temmy is a case in point. Although medical tests showed that her husband Juwon's sperm count was low, his family pressured him to divorce Temmy and marry someone else. She knew the health problem was Juwon's, not hers, as medical tests had proven. Nonetheless, she accepted her fate, keeping quiet in order to protect him from stigma.

Some men simply refuse to accept test results showing a low sperm count. In rare cases they resort to violence against their wives. "I am touched by the fate of childless women," gynaecologist Timothy Enimola says. "Some have their hands cut." He also knows of women who commit suicide in desperation. Most infertile husbands who refuse to accept test results seek a new partner.

Enimola says infertile people should see a doctor. He points out that, according to the WHO, infertility is a human-rights issue.

Yet many Nigerians cannot afford medical treatment for infertility. A common treatment is in-vitro fertilisation, which involves collecting eggs, fertilising them in a laboratory and transferring the fertilised embryo to a uterus. In Nigeria, this procedure costs between 2 million and 5 million Naira (€4,300 to €10,600). Such prices are out of reach for most Nigerian couples.

Sometimes, traditional healers can help. "Most infertility is caused by infection," says Agbabiaka Ojo, a herbalist. "We have herbs to cure infections in women and herbs to cure low sperm counts in men. We also have herbs that increase fertility. This is what our forefathers used long before the white man's medicine came to Africa." Traditional medicine, however, does not always offer a cure. Nor does modern medicine. For many people, infertility is a curse they cannot escape.

BIMBOLA OYESOLA
is a Lagos-based journalist.

oritokeoyee@gmail.com

Escaping the curse of infertility

Scholars have identified two kinds of traditional healers in Nigeria: herbalists and diviners. The herbalists offer practical, day-to-day preparations aimed at removing physical blockages to conception. The diviners are more like priests who explore patients' subconscious to root out psychological or moral hindrances that might block fertility.

Traditional cures are known to work sometimes. To some extent, science can explain why, but psychology matters too. In many African countries, moreover, belief in supranatural powers is quite common.

In some parts of Nigeria, a married woman who fails to produce a child is considered a witch – a person possessed by evil spirits who might do harm to others. "To this day, I avoid family gatherings," says Depeju, a childless wife. "If I bring snacks for my sister-in-law's children, for example, my sister-in-law forbids them to eat the snacks, saying I might poison them."

All over Africa, infertility is associated with a variety of superstitions. Some tribes believe that malignant spirits do not let a woman conceive. Hardly ever is infertility considered to be the husband's problem. Accordingly, there is also the belief that benign deities can help women get pregnant.

For example, the Yoruba people of southwestern Nigeria believe that the goddess Yemojah is the giver of life who can relieve couples of the curse of infertility. She is the mother of all the deities in the Yoruba pantheon. Osun, one of her daughters, is the goddess of love, sensuality and femininity.

To benefit from the positive powers of benign deities, believers visit shrines and join fertility rituals. Some women say they became pregnant after seeking and receiving spiritual guidance through such ceremonies.

For some, ensuring fertility is linked to survival in the hereafter. "Traditionally, the Yoruba have believed that the dead survive as long as their descendants remember and actively attempt to contact them," wrote Johnson et al. in 1990. "Death is thus complete only when no one is left to remember." In a spiritual sense, one's descendants thus ensure one's eternal life. Accordingly, infertility is considered a disaster.

Masses of Nigerians, of course, are Christian or Muslim. Their monotheistic religions refute such ideas. However, childlessness means stigma in their communities too, especially for women (see main story). Praying to get pregnant is very common in Nigeria. BO/AF

LINK

Johnson, J. M., et al, 1990: Juju-soup: The witch herbalist's solution for infertility. In African Studies Review, Vol 33 No. 1, April 1990. ***https://www.jstor.org/stable/524627?seq=3#metadata_info_tab_contents***

Unveiling a Nelson Mandela statue at Cape Town's city hall in 2018: Helen Zille (left), premier of Western Cape Province, and Patricia de Lille, mayor.

Photo: picture-alliance/REUTERS/SUMAYA HISHAM

DIVERSE SOCIETY

Living under majority rule

One generation ago, the white supremacist order of Apartheid ended in South Africa. The new democratic order has, however, neither delivered a strong economy nor social justice. The white minority generally accepts majority rule. It has lost its political dominance, but is still privileged in terms of wealth and opportunities.

By Roger Southall

After nearly thirty years of democracy, the South Africa economy is in deep trouble. Economic growth has been minimal since the global financial crisis of 2008/09, while the population has continued to increase. The living standards of most citizens are stagnating or declining. About one third of the working-age population is unemployed. Poverty and inequality remain huge challenges. Black South Africans are languishing at the bottom of every significant indicator relating to wealth, income, opportunity et cetera.

In these dire circumstances, the white minority, by contrast, has mostly continued to enjoy a high standard of living. It is an easy target for those who want to blame scapegoats for the economy's woes, as some black left-wingers indeed do.

Given South Africa's history, this is unsurprising. Prior to 1994, South Africa was subject to domination by the white minority in political and economic terms. Repression was brutal. Black South Africans and anti-Apartheid forces generally dismissed all but a small minority of white South Africans as racist and reactionary. Most historians would agree that this assessment was quite accurate.

"Race" is politically most controversial. It has no scientific base in genetics. Any generalisation across any however defined "racial group" is inherently dangerous. As a matter of fact, the response of white South Africans to majority rule has not been homogenous.

In political terms, things have indeed changed dramatically. Black South Africans now dominate the three branches of government. The white minority of 4.8 million people (eight percent of the population) has had to adapt. How they have sought to do so is the topic of my recent book "Whites and democracy in South Africa". Drawing on focus-group research and a growing body of academic literature, it shows that the minority community has displayed a remarkable diversity in political attitudes and behaviour.

On the one hand, most are quite pessimistic about the South African political and economic trajectory. They remain resentful about policies such as "Black economic empowerment", which is designed to improve the opportunities of black-owned businesses, or "employment equity", which reserves positions for black people (affirmative action).

On the other hand, most white people are pragmatic about their situation. They tend to recognise that they are far better off and enjoy more opportunities than masses of black South Africans. Some continue to contemplate emigration, notably because of fears about their physical security. Most, however, are determined to make the best of things and stay in South Africa. Many are indeed passionate about the country they consider their home.

FOUR MODES OF ADAPTATION

Broadly speaking, it is possible to identify four modes of white adaptation to democracy. There is a virtually unanimous recognition that there is no going back to Apartheid. Even better, three of the four groups basically understand that Apartheid was morally wrong.

- The first group consists of what I call the "armed opposers". The good news is that far-right militias have been firmly repressed. During and after the democratic transition of the early 1990s, organisations such as the Afrikaner Weerstandsbewing of Eugène Terre'Blanche had tried to create havoc and spark an anti-black uprising among whites. Afrikaaners are the white community of Dutch descent. Fragments of militant white groups still exist, but the intelligence services are monitoring them closely and they do not pose a serious threat to democracy. The far-right has moved to the internet, where it pushes claims of white farmers and others facing a prospective genocide. Such claims are obviously absurd in the eyes of the vast majority of South Africans, including most members of the white minority. Even though the internet campaigns are endorsed by right-wing supremacists internationally, including some US Republicans, they lack traction in the "rainbow nation", as Archbishop Desmond Tutu famously called the post-Apartheid country.
- The "passive resisters" are the second group. They recognise that they have no option but to accept the arrival of democracy. Nevertheless, they remain uncomfortable with the unfulfilled vision of equality that democracy implies. Some of these people consider leaving the country. The more common reaction has been "internal migration" into enclaves. Gated communities for white people keep emerging and growing in small towns and suburban areas. Moreover, Afrikaaners have a tendency of withdrawing into cultural spaces defined by their language, their Calvinist Protestantism and their thriving literature and film industry. In Afrikaaner-majority spaces, segregation persists.
- The third group are the "inclusive proponents". They are white people who wholeheartedly embrace democracy. They include people with British, Dutch and other ethnic European backgrounds. Important constituents include families who opposed apartheid. Some directly supported the liberation movement, while others did so indirectly as trade-union activists or human-rights defenders. Today, this group includes many professionals – academically trained doctors, lawyers, clergy members, journalists et cetera. Many are known to criticise the ruling party ANC for its failure to fulfil the promises of making life better for all. This group includes young whites for whom diversity at school and university has been the norm. Many of them feel anguish as they struggle to reconcile their rejection of Apartheid with their love for parents and grandparents who benefited from it. Their experience is similar to what young Germans felt after World War II who contributed to entrenching democratic principles in the young Federal Republic.

- The fourth group are the "active proponents", who take a rather different approach. They are determined to protect and pursue their specific interests with the tools democracy makes available. They accept majority rule, but are keen on fighting corruption and what they perceive as anti-white hate speech. Many of them are Afrikaaners. They focus on re-engaging their community in public life and rely on organisations such as Solidarity, which has developed out of the white Mineworkers Union. A prominent offshoot is Afriforum, an agency that specialises in using the courts to defend white interests. It is allied to right-wing populists including the AfD in Germany and the Trump-influenced Republicans in the USA and denies that Apartheid amounted to a crime against humanity.

None of these modes of behaviour are discrete. They overlap and feed into each other. Nonetheless, they translate into distinct voting patterns. South Africans of all races vote according to their social and economic interests, so whites tend to vote for parties that defend established interests. Historically, they descend from parties that dominated the whites-only politics in the Apartheid era.

Most whites who vote, now vote for the Democratic Alliance (DA), which traces its descent from the liberal Progressive Party of Helen Suzman and Helen Zille, who both prominently opposed Apartheid. However, the DA has absorbed remnants of the formerly ruling National Party. On the other hand, the Freedom Front Plus, which is a revival of the far-right Conservative Party, is benefiting from discontent with the economy and the dysfunction of the ANC, the former liberation movement that became the dominant party in 1994.

It is no surprise that whites vote along more conservative lines than their black counterparts. Two aspects of their voting behaviour must be emphasised:

- Whites vote in proportionately greater numbers than their black counterparts, because they see how they can use constitutional means in defence of their material interests.
- Nonetheless, they share with black South Africans a declining enthusiasm for voting because of their dwindling faith in the country's politicians.

The overall conclusion is that South Africa is in serious trouble, though not primarily due to "race"-driven identity politics. What the country urgently needs is a more dynamic and more inclusive economy. After all, the dissatisfaction, which is evident on all sides, results from wide-spread poverty and a general lack of opportunities.

REFERENCE

Southall, R., 2022: Whites and democracy in South Africa, Woodbridge, Suffolk, James Currey.

ROGER SOUTHALL
is emeritus professor in sociology of the University of the Witwatersrand.
roger.southall@wits.ac.za

It is not only Trump supporters' speech that is uncivilised, their behaviour often is so too.

Photo: picture-alliance/ASSOCIATED PRESS/Paul Sancya

FREE SPEECH

There is no democratic equality in the online world

"The paradox of democracy" by Zac Gershberg and Sean Illing is a disappointing book. The New York Times made me aware of it, promising an analysis of what impact digital media have on democracy. Therefore, I hoped the book would outline the pros and cons of digitalisation. Unfortunately, the two authors use a far too simplistic notion of democracy and largely shy away from considering how exactly the internet is modifying political communication.

By Hans Dembowski

Normally, I do not review books that I consider to be failures. In this case, however, I want to point out crucial fallacies because both topics – the essence of democracy and the impact of digital media – are of vital relevance. I'll start by summarising the authors' core thesis, then elaborate on what they get wrong about internet media before discussing why their idea of democracy is incomplete.

Gershberg and Illing argue that democracy is always fragile because it is defined by the freedom of speech. This freedom allows people to criticise governments and demand change. That is healthy, as they point out, because it allows grievances to be tackled in peaceful and constructive ways. The downside, however, is that the freedom of speech can also be turned against democracy itself, with authoritarian actors undermining not only elected leaders, but the political system itself. Populist demagogues, according to the authors, are doing exactly that. On this basis, they argue that liberal democracy has died. They define liberal democracy as an order in which powerful media and strong institutions reinforce the existing order by ensuring that public discourse does not become erosive.

In their eyes, newspapers and broadcasting stations no longer dominate public discourse the way they did the second half of the 20th century and the internet has introduced an era of truly free speech. Editorial offices no longer serve as gatekeepers. Everybody is free to express themselves online, and conventional ideas of civility no longer apply. Indeed, the two authors even argue that democracy has become more democratic because masses of people are now venting frustration, anger and even hatred online without restraint. Whether statements are true or not matters less than whether they resonate, according to them.

Gershberg and Illing state that any political order ultimately depends on the underlying political culture. It is true that democratic institutions depend on public expectations, so they are indeed only as strong as people's faith in them is. In this fundamental sense, the authors' theorem of democracy being permanently at risk is correct. What Gershberg and Illing miss is that institutions can and should shape public discourse too. Moreover, not every message that is legally permitted is legitimate. The two authors fail to consider how disruptive information can – and indeed should – be challenged systematically.

INSTITUTIONAL FAILURES

The core reason that so much populist propaganda is spreading online internationally is that the US Congress has exempted internet platforms from liability for the content they make available. US law matters internationally because many of the most important internet companies are based in the States and we have no international regulation. Conventional media houses can be held accountable for disinformation they spread, but that does not apply to social-media platforms. Legislation thus could – and should – limit the tide of fake-news propaganda.

Germany experienced two totalitarian dictatorships in the 20th century, Nazism and, in the east, communism. We know that democracy must be able to defend itself. As a result, German law obliges social-media companies to take down within 24 hours any hate-speech post that they are made aware of. This is no longer an issue of corporate self-regulation.

The regulation conforms with a EU consensus. Other member countries have similar, though not identical rules.

More could be done institutionally. Given that we know that free speech can threaten democracy, readers should always be able to find out who is responsible for any kind of published information. On social media platforms, we often do not know. Accounts may be fake after all, and the platform itself is not liable.

The notion, moreover, that the internet has facilitated truly open media is wrong. No, not everyone is equal in the digital public sphere. Gershberg and Illing basically claim that everyone can post what they like and that internet corporations basically only give people what they want. They do not discuss the role that algorithms play, even though algorithms downplay some topics and promote others. If you invest in Facebook advertising, for example, the Facebook algorithm will ensure that your posts get more attention. Not everyone has the money to do so, but some can spend heavily.

The full truth is that internet users pick from the choice that the algorithms present on their screens, but they hardly become aware of what is not shown. If you follow us on Facebook, you can check for yourself by comparing what D+C/E+Z content appears on your timeline with what we post on our profile page and what we publish on our website. One thing you will notice is that the Facebook algorithm does not appreciate D+C/E+Z headlines that appear even mildly controversial.

The algorithms are secret. As users, we do not fully understand their biases, though we do know that they serve corporate interests. The algorithms are designed to maximise profits by attracting users' attention. So even while supposedly controversial topics on our website are downplayed, we also know that YouTube and Facebook have a tendency to drive a person's radicalisation by offering gradually more extreme content with an eye to keep users hooked.

It is also common knowledge that Russian bot farms make divisive messages go viral in western democracies. To what extent does such automated programming in a foreign nation amount to free speech that Western democracies must accept? The book offers no answer.

It also ignores that disinformation tends to be particularly bad in languages other than English. The half-hearted self-regulation social-media platforms use so far hardly apply to posts in Spanish, Swahili, Amharic, Hindi, Tagalog, et cetera. At the same time, internet corporations are obviously keen on staying in business in Latin America, Africa and Asia, so they are doing their best not to offend autocratic leaders there. Algorithms have a pattern of accelerating anti-minority agitation in many countries, while slowing down criticism of the government.

Gershberg and Illing do not tackle these issues at all. Accordingly, they do not discuss how they could be tackled by institutional means. Instead, they muse about how radical rhetoric can essentially undermine the democratic order that allows it to spread. And that brings me to what they get wrong about democracy. It is simply not enough to define it by the freedom of speech. The great German sociologist Niklas Luhmann, for example, basically defined democracy as always having an alternative government in waiting. In a formal democratic setting, after all, there is a government and a legitimate opposition, with the latter, in principle, being ready to assume administrative responsibility at any time. The result is that democracy is more dynamic and adaptive than autocratic rule, which glorifies the government and delegitimises any opposition.

YES, INSTITUTIONS DO MATTER

Gershberg and Illing deny that institutions matter. They thus not only forego any opportunity to make institutions resilient. They fail to acknowledge what makes democracy, the form of governance they explicitly prefer, so dynamic. It is more than just the freedom to express grievances. The permanent availability of a viable alternative is essential. The institutional setting matters.

Donald Trump's rise to the White House in the elections of 2016 was simply driven by angry internet rhetoric. It was also facilitated by the institution of Electoral College which granted him power even though his opponent, Hillary Clinton, had won close of 3 million more votes than he had. This institution denied the majority its will.

It is worth adding that the democratically unbalanced Senate allowed Trump to appoint three Supreme Court justices, tilting the majority on the bench towards the worldview of the minority of voters who elected Republican senators. These are institutional shortcomings, not the result of uncivilised discourse.

Gershberg and Illing argue that Brexit was a truly democratic event, because voters opted for it. They admit that the term was not well defined, so debate on its true meaning only really started after the decision to leave the EU was taken. Would it not have been wiser to define the term first and hold the referendum afterwards? That would have been institutionally feasible – and it would have avoided current problems by making some Brexit paradoxes obvious. Instead, populist rhetoric turned the issue into a question of patriot feelings.

The international community is facing huge problems. We need global solutions for global problems. We know that authoritarian governments are unlikely to deliver, though democratically legitimate governments have fallen short too.

Hindu supremacists like Prime Minister Narendra Modi do not simply appeal to Hindu solidarity, they have created an unprecedented sense of unity in spite of their faith's deep caste divisions.

Photo: picture-alliance/Reuters/Adnan Abidi

According to the book's index, climate change is mentioned only on three pages. I've checked all three pages diligently, and the topic does not even feature on the third. Global heating, however, is a core challenge, including in regard to democratic governance. Unfortunately, democracy is not good at tackling long-term issues. Policymakers think in legislative terms, so what will happen after the next election is systematically of minor concern. I am convinced that many of the problems we are currently struggling with result from people knowing that, because of the climate crisis, things cannot go on as they have been in recent decades. Some are in full denial and thus appreciate systematically applied false information. Others are increasingly aware of democratic governments failing. In my eyes, the true paradox of democracy is that it promises solutions for everything but fails to do much about anything that is not of immediate urgency.

It would have made sense to define "Brexit" before holding the referendum: lorries stuck in a jam on the way to the port of Dover in August 2022.

Gershberg and Illing shy away from the climate crisis, even though the imminent self-destruction of our species defines our era more than any other phenomenon. Instead, they waste many pages rambling on about what they call "ethnonationalist" leaders in various countries and how they use various kinds of media. They are a bit sloppy, for instance when they fail to point out that populist authoritarians hardly ever gain office with the support of a majority of voters. They typically benefit from election systems that create winners with fewer than 50% of the vote. This is an institutional matter.

They are wrong, moreover, to call India's Prime Minister Narendra Modi an "ethnonationalist". He is actually a Hindu supremacist. India's huge Muslim minority is not ethnically different. The authors are wrong, moreover, to simply state that Modi is offering the Hindu majority something that it finds appealing. Hinduism is a caste-based religion which does not lend itself easily to a sense of faith-based solidarity.

The big achievement of the Hindu supremacists has been to create a sense of Hindu nationalism which is historically unprecedented. Most of their leaders belong to the high castes. It is fundamentally astonishing that they are now appreciated by members of lower castes. They were not in the past, though they did occasionally manage to start anti-Muslim pogroms. In Modi-supporting circles, the traditional elites are still very much in charge, but their claim to be speaking for "the people" now resonates in ways it did not do in the past. In their eyes, anyone who opposes them is "anti-national".

Things are not much different in the USA, by the way. Trump is a billionaire, not a man of the people. He is supported by Harvard- and Yale-educated senators who love to agitate against "elites" as though they themselves did not belong to them.

PLUTOCRAT POPULISM

There is such a thing as plutocrat populism (see my contribution on dandc.eu), but Gershberg and Illing do not take account of it. It serves the interests of the superrich while claiming to represent ordinary people. It thrives on prejudice, but is not good at designing policies. It is no coincidence, of course, that those who benefit from fossil fuels have a tendency to support oligarchic populism – including Russian President Vladimir Putin or Crown Prince Mohammed bin Salman of Saudi Arabia.

Gershberg and Illing, however, stick to the misleading narrative of Trump basically mobilising "the people" against "the elite". Their book would be much better if they had assessed to what extent this misleading narrative results from specific aspects of innovative internet media and to what extent it results from conventional media endorsing it.

The full truth is that a distorted notion of balance in conventional media has helped Trump. US journalists are trained to give equal space and weight to both major political parties. Too few media houses have changed that stance as a response to only one of the two big parties still wholeheartedly endorsing democracy. Anti-democratic lies are thus presented as similarly legitimate as truthful warnings against authoritarian tendencies. President Joe Biden has recently begun calling Trump supporters "semi-fascist", and some traditional newspapers ridiculously insist he take a more "bi-partisan" stance. Such writing in conventional media makes semi-fascism look legitimate.

The international community needs good rules for internet communication. This book does not help to bring those rules about.

REFERENCE

Gershberg, Z., and Illing, S., 2022: The paradox of democracy – Free speech, open media and perilous persuasion. Chicago/London, University of Chicago Press.

HANS DEMBOWSKI
is editor-in-chief of D+C Development and Cooperation/E+Z Entwicklung und Zusammenarbeit.

euz.editor@dandc.eu

Taking the risk

Zimbabwe's public transport sector still struggles to meet existing demand sufficiently. To take advantage of the situation, illegal public transport vans called "mushika-shika" are increasingly becoming a popular alternative to those that seek convenient transport.

Mushika-shika means "quick-go". Most vehicles used are old beaten-up and discarded cars shipped mainly from Japan. They emit dirty fumes and are often in poor technical conditions.

Worsening inflation makes the alternative taxis a massive job opportunity for thousands of chronically jobless youths who act as drivers, mechanics, cashiers – and thousands of the urban poor desperate for affordable transport.

Mushika-shikas were banned in Zimbabwe, because they are unroadworthy and breaking every road traffic rule. Anyway, they continue to operate. In Harare, millions of urban working-class people cannot be absorbed in existing public transport infrastructure. On a typical working day, between 7 am and 4 pm, thousands of workers squeeze into bus terminals for a few state-owned urban commuter buses. In these humiliating queues, sometimes women are even molested in the scramble for scarce bus seats.

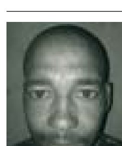
Seeing a money-making opportunity, the mushika-shikas sneak up and down Zimbabwe's city highways, playing cat and mouse with police, whisking commuters for just 30 cents. Their attractiveness, apart from ultra-low prices, is their ability to quickly manoeuvre in the thinnest of city alleyways and ferry thousands of the urban poor to their workplaces quickly.

28-year-old Tonderai Gato works on such a commuter vehicle as a conductor. However, his role goes beyond loading passengers. He sometimes acts as the mechanic to repair the vehicle when it breaks down, what could happen to the car at any time. "My job is letting the taxi drive on with doors open, my body outside in the air, the car speeding at 40 miles an hour so that passengers fit comfortably inside the car," he says.

For Tonderai, his 'quick-go' vehicle means everything. "My family hospital bills, meals, children school fees depend on the earnings. I am willing to absorb the risk," he says.

"Designed to carry a maximum of four passengers, mushika-shika squeeze a mind-boggling 12 passengers into each sedan. The drivers often drink on job and the cars hardly bear passenger injury insurance," says Zano Sikhosana, a trade unionist in the capital Harare. Zimbabwe police have their hands full trying to waylay the illegal taxis, but the task is huge as a flood of these sedans dominates the streets.

A World Health Organization (WHO) report says that Zimbabwe's roads are the deadliest in the southern Africa region with an average of 665 people killed each year in road fatalities. The mushika-shikas are a contributing factor. "It's a choice between a fire and hot pan," says Gladys Wemba, a hairdresser in Mutare. "Choose the 20 cents mushika-shikas and probably get your legs broken by squeezing or accident or take a safer state bus; arrive an hour late at work and get fired."



PROGRESS MWAREYA
is a freelance journalist based in east Zimbabwe.
progressmwareya2@gmail.com

MASTHEAD / IMPRINT

D+C DEVELOPMENT AND COOPERATION

Sustainable development requires global awareness and local action.

Vol. 49, 2022
D+C is the identical twin of the German edition E+Z
Internet: www.DandC.eu
ISSN 2366-7257
The production of this Digital Monthly was finalised on 29.11.2022.

D+C Development and Cooperation is funded by Germany´s Federal Ministry for Economic Cooperation and Development and commissioned by ENGAGEMENT GLOBAL. D+C does not serve as a governmental mouthpiece. Our mission is to provide a credible forum of debate, involving governments, civil society, the private sector and academia at an international level. D+C is the identical twin of E+Z Entwicklung und Zusammenarbeit, the German edition.

We invite people who work in different sectors and live all around the world to contribute to D+C/E+Z. The editors request that no unsolicited manuscripts be sent, but proposals for contributions are welcome. After editing manuscripts according to journalistic standards, we ask the authors to approve the final texts before publishing their items. As we edit interviews for clarity and brevity, we also ask our interviewees for approval of the final manuscripts to ensure we do not distort their message. That is standard practice in German journalism.

ENGAGEMENT GLOBAL gGmbH
Service für Entwicklungsinitiativen
Friedrich-Ebert-Allee 40
53113 Bonn
Phone: +49 (0) 2 28 2 07 17-0
Fax: +49 (0) 2 28 2 07 17-150
www.engagement-global.de

ADVISORY BOARD:
Selmin Çalışkan, Prof. Dr. Anna-Katharina Hornidge, Prof. Dr. Katharina Michaelowa, Dr. Susanne Neubert, Bruno Wenn

PUBLISHER:
Fazit Communication GmbH
Executive directors: Jonas Grashey, Hannes Ludwig

ADDRESS OF THE PUBLISHER AND EDITORIAL OFFICE:
Frankenallee 71–81, D-60327 Frankfurt am Main, Germany

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

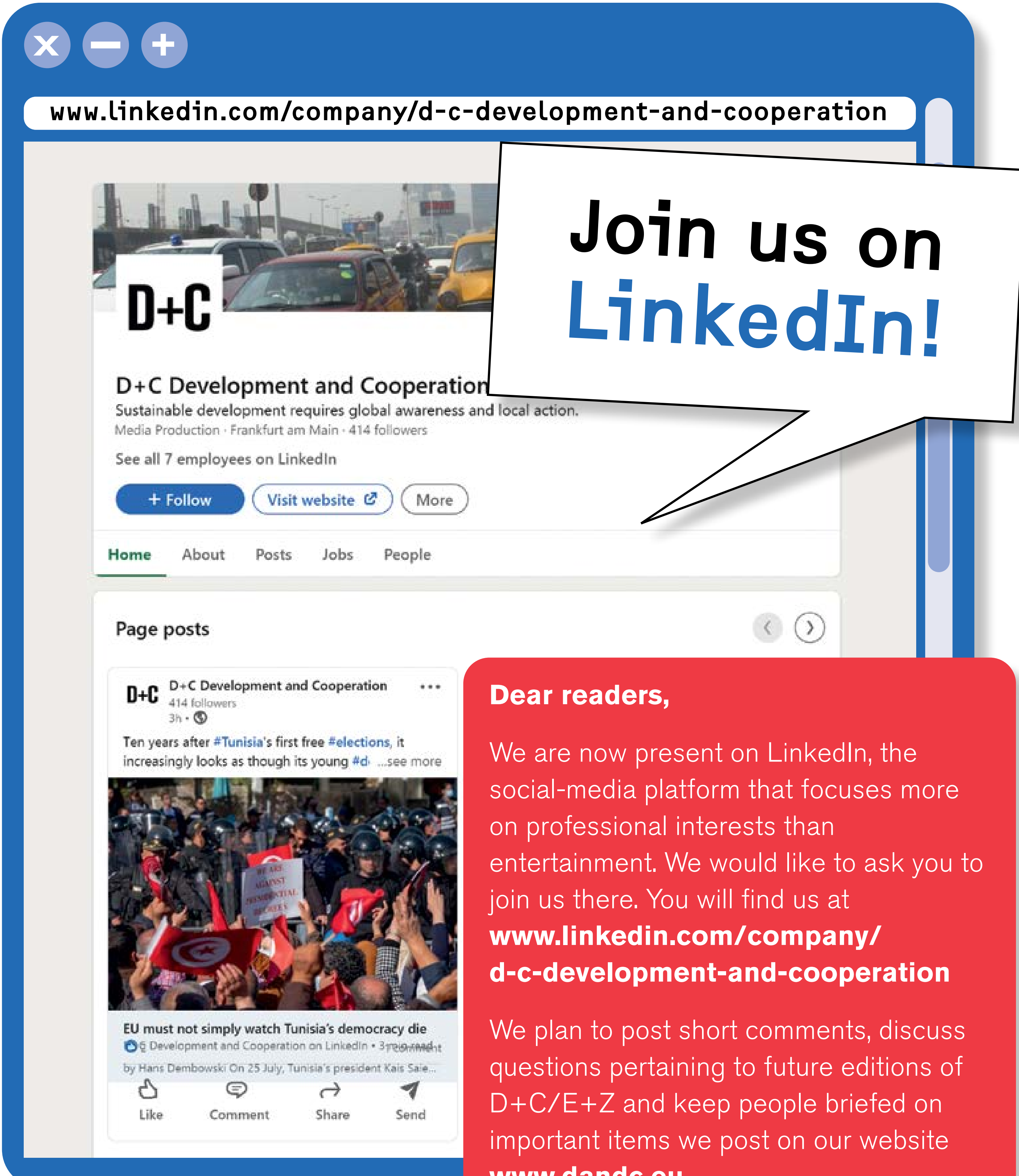
EDITORIAL OFFICE:
Dr. Hans Dembowski (DEM; editor-in-chief; responsible for content according to Germany's regulations), Sabine Balk (SB), Jörg Döbereiner (JD), Dagmar Wolf (DW; assistant), Maren van Treel (MVT; social media)
Freelance support: Ronald Ssegujja Ssekandi (Nowadays column), Aviva Freudmann, Jan Walter Hofmann (layout), Malcolm Bell (translation), Claire Davis (translation)
Phone: +49 (0) 69 75 91-31 10
euz.editor@dandc.eu

Disclaimer according to § 5,2 Hessian Law on the Freedom and Rights of the Press: The shareholder of the company is FAZ Fazit Stiftung.

ADVERTISING AND SUBSCRIPTION SERVICE:
Fazit Communication GmbH
c/o Cover Service GmbH & Co. KG
PO Box 1363
D-82034 Deisenhofen, Germany
Phone: +49 (0) 89 8 58 53-8 32
Fax: +49 (0) 89 8 58 53-6 28 32
fazit-com@cover-services.de

PRINTING:
Westdeutsche Verlags- und Druckerei GmbH
Kurhessenstraße 46
D-64546 Mörfelden-Walldorf, Germany

PRINT SUBSCRIPTION PRICES (INCL. MAILING CHARGES):
single issue: € 2.20
annual subscription, Germany: € 14.00
annual subscription, world: € 18.00



Dear readers,

We are now present on LinkedIn, the social-media platform that focuses more on professional interests than entertainment. We would like to ask you to join us there. You will find us at **www.linkedin.com/company/d-c-development-and-cooperation**

We plan to post short comments, discuss questions pertaining to future editions of D+C/E+Z and keep people briefed on important items we post on our website **www.dandc.eu**

DEVELOPMENT AND COOPERATION | D+C

MILITARY COUP

Anti-French feelings

Burkina Faso's second military coup in eight months shows that the Sahelian security crisis is getting worse.

By Karim Okanla

At the end of September, Ibrahim Traoré, an army captain, grabbed power from Paul Henri Sandaogo Damiba, a lieutenant-colonel, who was serving as Burkina Faso's head of state. Damiba had toppled the civilian President Roch Marc Christian Kaboré in late January.

As Damiba did then, Traoré now promises to rid the country of terrorism. Indeed, Islamist insurgents are wreaking havoc in Burkina's north. In October, they controlled about 40 % of the country and perhaps more. Under Damiba, the situation had kept worsening. The sense of public frustration grew, and Traoré and his allies in the military took notice. Their coup fits a current pattern according to which army officers stage a coup because of a worsening security situation.

Burkina Faso is a poor country with a population of about 19 million. Many people live from hand to mouth, and the environmental crisis is making it increasingly hard to eke out a living. People therefore appreciated Traoré's decision to airlift food supplies to Djibo, a northern town held by jihadists. The humanitarian situation there is desperate.

Traoré faces huge challenges. One problem is that the military itself is deeply divided. High-ranking officers enjoy perks, but low-ranking troops are poorly equipped and sometimes even lack food and ammunition on the front lines.

There is a long history of infighting in the armed forces, moreover. In 1987, Blaise Compaoré ousted Thomas Sankara, a charismatic, leftist military dictator. Compaoré was Sankara's ally until he turned against him, had him killed and became military leader himself. Compaoré relied on a "presidential guard" composed mostly of men from his own tribe. Some say that he also cooperated with the jihadists, paying them to spare his country for many years.

Compaoré lost power in a popular uprising in 2014. However, attempts to establish a well-functioning democracy failed. Traditional chiefs, who wield much influence though they do not have a constitutional role, tend to support military rule in desperate situations. Many of them felt neglected in recent years, moreover.

Russian flags at pro-coup rally in Ouagadougou in mid-October.

Rallies of young people celebrated Traoré's coup in October, with some waving Russian flags. They may hope that support from the Wagner Group, a Russian military-service provider, and other Moscow-endorsed entities may help Traoré stem the jihadis. However, the pro-Russian stance is best understood as an expression of anti-French feelings.

Those feelings are strong throughout West Africa. People are aware of the country's oppressive colonial history, and they resent the close ties French presidents maintained to obviously corrupt African counterparts, including Compaoré in Burkina Faso, decade after decade. It also matters that current Sahelian strife began to escalate, particularly in Mali, when massive weapon supplies became available after the fall of Libya's dictator Muammar al-Gaddafi in 2011. At the time, Nicolas Sarkozy and David Cameron, then the top policymakers of France and Britain respectively, were the main proponents of the UN-endorsed intervention which facilitated Gaddafi's end, without, however, taking control of the resulting security problems in Libya and the Sahel region.

Today, many see France as a weakening, mid-size power. Its intervention to stop jihadism in Mali failed, and a military government is now in charge there too. As violence kept spreading in the Sahel region in recent years, the attitude of French troops was considered to be condescending towards Africans.

The Economic Community of West African States (ECOWAS) does not have a coherent approach to dealing with military regimes. Some national leaders, like Macky Sall of Senegal and Faure Gnassingbé of Togo, are tolerant of their harsh stance. By contrast, President Alassane Ouattara of Côte d'Ivoire says he does not like the military in power. He is in favour of a regional force to help put an end to military takeovers.

Quite obviously, Burkina Faso needs effective support. The security situation is desperate – and so are masses of people.

KARIM OKANLA
is a media scholar.

karimokanla@yahoo.com

Photo: picture-alliance/ASSOCIATED PRESS/Kilaye Bationo

CLIMATE CONFERENCE

Missed opportunity

Even though the UN climate summit in Sharm el-Sheikh disappointed, it was historic. About 200 nations agreed to set up a fund to cover the loss and damage that climate impacts cause.

By Jörg Döbereiner

The Climate Vulnerable Forum, to which 58 countries of the global south belong, speaks of a "landmark decision". Its members are particularly exposed to climate impacts. In their eyes, the new fund is an important step towards climate justice.

Prosperous nations, which historically have caused most greenhouse gas emissions, are expected to pay, whereas poorer nations, which have hardly contributed to global heating, but suffer the worst impacts, will receive money to repair damages. Developing countries and emerging markets have been demanding such a fund for a long time. It will be set up quite late, however, as extreme weather is already wreaking havoc in many places. The floods submerging large parts of Pakistan this summer, for example, affected more than 33 million people, and the damages amount to a double-digit billion dollar sum (see Imran Mukhtar on page 4). The new fund is meant to enable fast and adequate responses to such calamities.

Unfortunately, the scheme still is quite vague. Who will contribute how much, is an open question. China, currently the country with the most carbon emissions and historically the second runner behind the USA, does not want to pay. Western governments insist that the world's most potent export power cannot keep hiding behind its traditional status as a developing country. Success will ultimately depend on China's willingness to cooperate.

So far, burdens have not been shared fairly. High-income countries are still not living up to their old pledge to mobilise an annual $100 billion in support of climate mitigation and adaptation in low- and middle-income countries. Many disadvantaged countries, moreover, are heavily indebted, so they can hardly take new loans to respond to the climate crisis – and to the extent that they are still able to do so, such fiscal action will ensnare them more tightly in debt traps after every new drought or flood. It plainly does not make sense to discuss climate finance without considering debt problems.

Prosperous nations must obviously bear responsibility for covering climate damages. It would be even more important, however, to put a brake on global heating. In this respect, the summit in Egypt was a failure, even though it reconfirmed the goal of the Paris Agreement concluded seven years ago to limit average temperature increases to 1.5 °C. The problem is that humanity has not made significant progress on getting there.

That would require radical reductions in the use of fossil fuels. Sadly, the summit declaration only mentions the phasing down of coal, but not oil and gas. Opposition from fossil industries and major producing countries such as Saudi Arabia and Russia proved too strong. Moreover, there was a lack of nation states scaling up their climate commitments made so far.

Time is running out. The concentration of greenhouse gases in the atmosphere keeps growing. Scientists tell us that the policies currently in place will lead to a temperature rise of 2.8 °C by the end of this century (see Suparna Banerjee on page 5). However, irreversible tipping points, such as the melting of Arctic and Antarctic ice, are likely to be crossed somewhere between 1.5 °C and 2 °C. As a result, climate damages would escalate far beyond what we have seen to date.

To prevent the worst, cooperation of as many countries as possible, including the EU and the USA, is needed. They must scale up climate efforts fast, regardless of what is declared at global summits. The transition to renewable energy makes economic sense anyway. Never before has it been so cheap to generate solar and wind power. Moreover, the current energy crisis, which was triggered by Russia's attack on Ukraine, proves how devastating the dependence on fossil imports from despotically ruled countries can be.

International cooperation is indispensable if humankind is to get a grip on the climate crisis. Nationalist egotism of the Russian kind must not be allowed to undermine it. How hot the planet will become by 2100, depends on whether such a transformative coalition of the willing succeeds. The credibility of the western governments depends on it too, by the way.

JÖRG DÖBEREINER
is a member of the editorial team of D+C Development and Cooperation / E+Z Entwicklung und Zusammenarbeit.

euz.editor@dandc.eu

Sameh Shoukry (left), Foreign Minister of Egypt, speaks during the closing ceremony at the UN Climate Summit COP27 in November in Sharm el-Sheikh.

Photo: picture-alliance/dpa/Christophe Gatea

INTERNATIONAL LAW

Western double standards

Many developing countries and emerging markets have not sided with the west regarding Russia's war in Ukraine. One reason is that the USA and its allies seriously damaged their credibility by not adhering strictly to international law in the past.

By Kai Ambos

The territorial integrity of a sovereign state like Ukraine can only be changed by negotiation, not by military force. This principle is spelled out in the UN Charter's prohibition of the use of force, which is the fundamental norm of the international order. Anyone who violates this norm challenges the world order itself.

Russia has done that. By launching its war of aggression against Ukraine, it committed a fragrant breach of international law. It is daily making matter worse, including with carpet bombings or so-called referendums and subsequent annexations.

The countries of the west are providing Ukraine with massive political, financial, humanitarian and military support. At the same time, they have imposed unprecedented sanctions on Russia. They claim their Ukraine policy is designed to defend the prohibition of the use of force and restore the rules-based international order. Not only the US as leading power has taken that stance. German policymakers have done so too, for example Annalena Baerbock, the federal foreign minister.

At the international level, however, the west's response to Russia's war of aggression is by no means fully endorsed. The UN General Assembly resolutions of 2 March (explicit condemnation of Russia's war of aggression) and 12 October (condemnation of the so-called annexations) show that 141 and 143 of 193 states voted in favour and thus sent a clear signal to Moscow. Yet, the practical implementation of this normative call was rather limited. Only about 40 states took tangible steps such as imposing economic sanctions on Russia or providing military support to Ukraine. That is regrettable and astonishing in view of how severely and consistently Russia is violating international law. Several developing countries and emerging markets, in particular, have not sided with the west.

There are a number of reasons for this limited global support. They range from injustices committed in colonial times, other post-colonial legacies as well as current Russian support in either economic or military terms for the countries in question.

It also matters that the west's credibility has been dented by violations of international law committed by western countries in the recent past. Unfortunately, the list is quite long. The US led invasion of Iraq in 2003 under then President George W. Bush was a particularly important example: it violated the prohibition of the use of force under international law because it was neither sanctioned by a UN Security Council resolution nor justified by the right of self-defence.

More recent incidents include extrajudicial drone executions carried out as part of the United States' "war on terror". One more recent example is the killing of Al-Qaida leader Ayman al-Zawahiri in the Afghan capital Kabul in late July. Such breaches of the law undermine the west's credibility on international law issues – even if, in many ways, Russia's breaches are different and arguably worse.

The ensuing loss of credibility affects not only the United States, but its allies too. Germany and the EU should therefore take a more consistent line on international law than they have done so far, for example clearly rejecting the US policy of extrajudicial executions. They should firmly declare where their interests are in conflict with those of the USA, and they should express criticism and concern where necessary. Unless the west consistently observes international law itself, it cannot credibly defend that law when it is violated as massively as at present in Ukraine.

BOOK

Ambos, K., 2022: Doppelmoral – Der Westen und die Ukraine. Frankfurt a.M., Westend.
There are shorter versions in English (Journal of International Criminal Justice) and Spanish (Editores del Sur).
https://academic.oup.com/jicj/advance-articles
https://www.editoresdelsur.com/productos/la-guerra-en-ucrania-kai-ambos-autor-leandro-dias-y-lucila-tunon-coord/

KAI AMBOS
is a professor of criminal law, criminal procedure, comparative law, international criminal law and public international law at the University of Göttingen.
kambos@gwdg.de

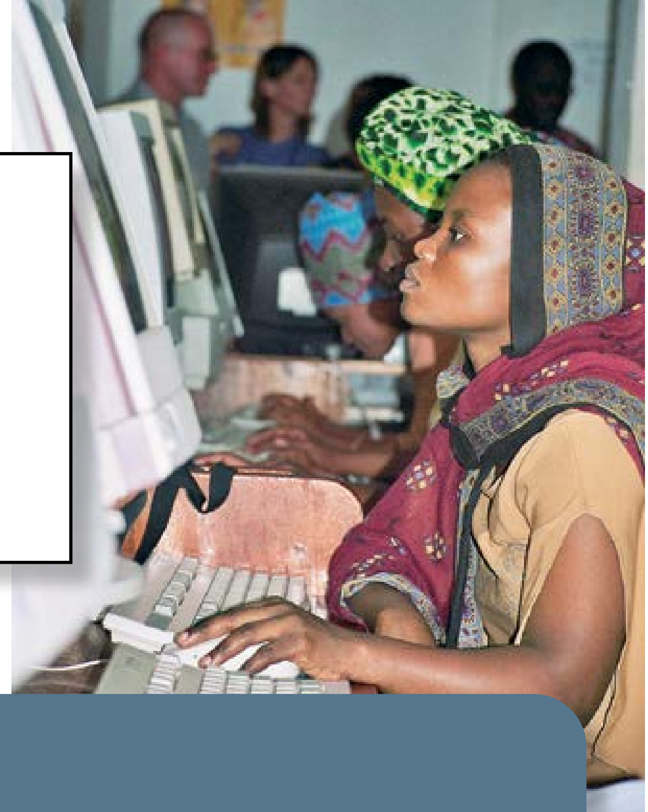
US Secretary of State Antony Blinken visiting Ukrainian President Volodymyr Zelenskiy in Kiev in September.

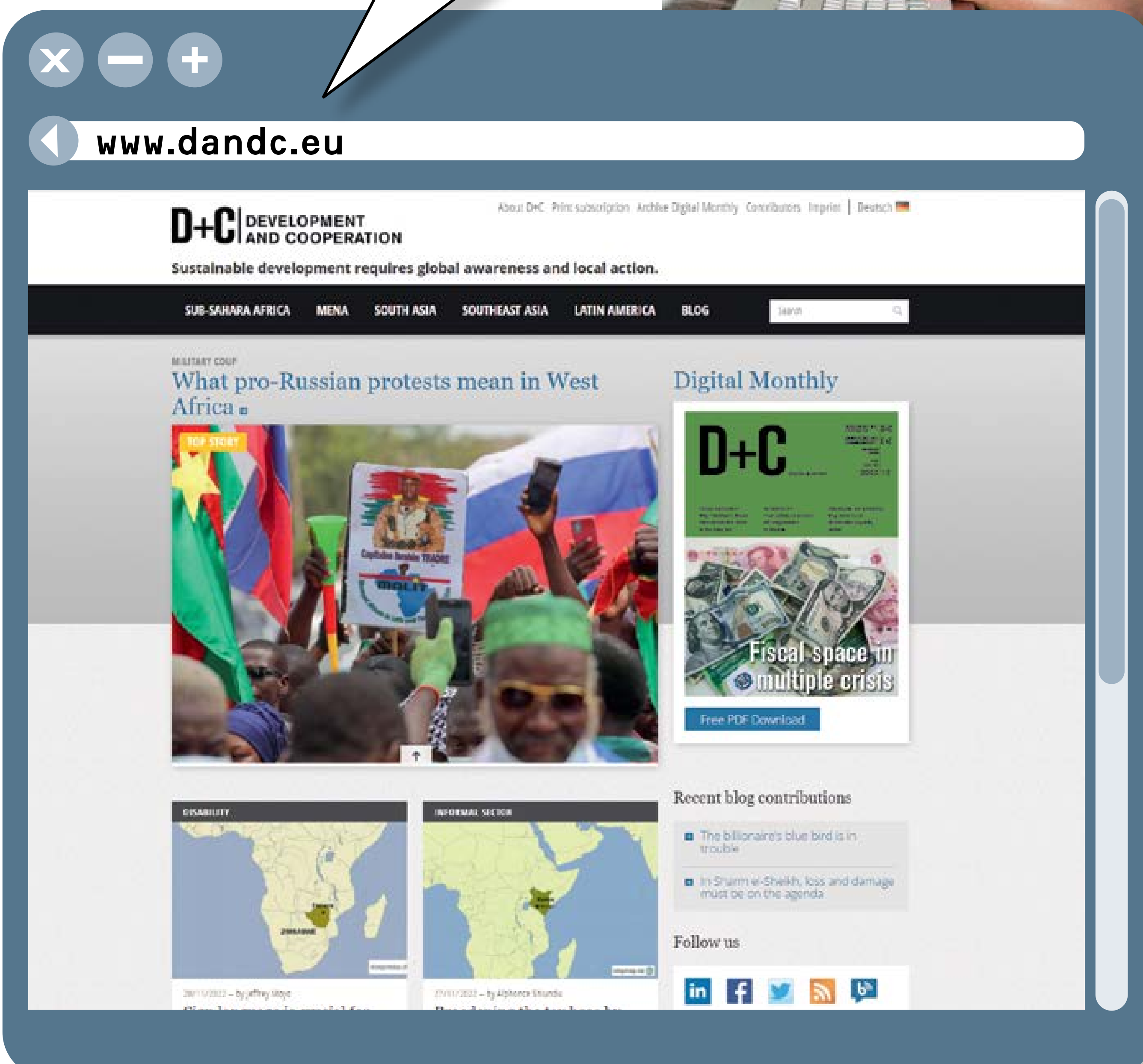
Photo: picture-alliance/ZUMAPRESS.com/Sarsenov Daniiar/Ukrainian Presi

Please visit our

Website

www.DandC.eu





IMF Managing Director Kristalina Georgieva and Indonesia's President Joko Widodo during the G20 Summit in Indonesia in November.

Photo: picture-alliance/ASSOCIATED PRESS/Mast Irham

FOCUS

Fiscal space in multiple crisis

"After the G20 summit, I am actually a bit more optimistic than I was before." **IWAN J. AZIS, P. 20**

"The smaller a country's GDP per capita is, the lower its tax revenues tend to be." **PRAVEEN JHA, P. 22**

"The strong dollar tends to hurt particularly developing economies in several ways." **ANDRÉ DE MELLO E SOUZA, P. 24**

"In 2022, the IMF lent money at record levels for the third year in a row." **KRISTINA REHBEIN AND MALINA STUTZ, P. 26**

"There has been far too little public and private investment in education, skills, training and research." **SUNDUS SALEEMI, P. 28**

"Even before the advent of Covid-19, Zambia was at high risk of overindebtedness." **PETER MULENGA, CHIBVALO ZOMBE AND CHARLES CHINANDA, P. 30**

"The greatest challenge is probably to widen the tax base by gradually including more informal workers in the system." **ALPHONCE SHIUNDU, P. 32**

GLOBAL GOVERNANCE

G20 leaders are "not in a state of denial"

The top policymakers of the G20 – the group of the world's 20 largest economies – convened in Bali in November. According to Iwan J. Azis, an Indonesian economist, they are aware of the complex challenges humankind is facing.

Iwan J. Azis interviewed by Hans Dembowski

Global leaders in tree-planting photo opportunity in Bali.

Photo: picture-alliance/ASSOCIATED PRESS/Alex Brandon

We are living in multiple crises, and inflation is compounding all other problems. In a way, inflation is also a response to those crises because it is redistributing purchasing power and thus resources, though in an unplanned and uncoordinated way. The G20 declaration shows awareness of the problems and encourages central banks to manage the situation. To me, this message is confusing because central banks are now in a kind of race to raise interest rates, trying to keep their respective currencies competitive and make other countries bear a greater burden (see André de Mello e Souza on page 24 of this issue). The G20 was launched in 2008 to coordinate macroeconomic policy. Is the group shying away from that task?

No, I do not think so. My impression is that all policymakers involved understand that the current polycrisis is more complex than they used to assume. Covid-19, the war in Ukraine, the economic slump, food shortages, global warming, the dwindling of biodiversity and inflation reinforce one another in ways that make them almost intractable. After the summit, I am actually a bit more optimistic than I was before. I find it encouraging that the world's most important governments are not in a state of denial and have done a lot to find common ground.

But that does not add up to a strategy to control inflation.

Well, there is only so much a group of 20 governments can do. Two things are driving up prices:

- One is the return to normal monetary policy after years of super-cheap money. Ever since the financial crisis of 2008, central banks of high-income countries had kept interest rates extremely low. The policy was called quantitative easing and it served to stimulate sluggish economies. Loose monetary policy, of course, makes asset prices rise, with eventually inflation increasing. It was obvious that it would take off sooner or later, and now it has.
- This development was triggered – and exacerbated – by real-economy shocks. One was the coronavirus pandemic which severely disrupted supply chains. Another one was Russia's invasion of Ukraine, which drove up food and energy prices. You can also count increasingly devastating extreme-weather events as real-economy shocks too. On the demand side, consumption, which was subdued in the pandemic, has resumed, especially among high income groups.

So we are now living in a perfect storm. In this setting, it makes sense for the summit declaration to reiterate the role of independent central banks and call for vigilance.

But don't we need more?

You cannot expect a two-day summit of heads of state and government to sort out everything, especially as they really are not close allies, but competitors and even adversaries. A big contradiction is that they all know that international cooperation is necessary, but they also feel the pressures of decoupling and de-globalisation. The sense of rivalry among them has grown, and there is an international trend towards more regional and national decision-making. It is therefore promising that Joe Biden and Xi Jinping had a long bilateral meeting in Bali. It shows an interest in cooperation in spite of many disagreements. It is equally encouraging that the declaration mentions all of the big problems that must be solved. Even though Russia is a G20 member, for example, the declaration spells out that the war in Ukraine is compounding macroeconomic problems. It also states that threats to use nuclear weapons are unacceptable in the eyes of most participants. The language of the statement is surprisingly clear.

Acknowledging that the war adds to macroeconomic problems does not end the war – and it does not reduce the problems.
No, it does not, but that is the most the G20 was able to do. It is ultimately an informal setting with a macroeconomic mandate. It really can only express intentions and, if things go well, coordinate policies to make them come true. In terms of intentions, important global goals were reconfirmed, including food security, the mitigation of climate change, the protection of ecosystems, the stability of the financial architecture, the rule-based trade order, inclusive growth and so on. The document includes a commitment to speed up action towards achieving the Sustainable Development Goals. It also points out that women, smallholders, youth and vulnerable groups deserve particular attention, so no one gets left behind.

The declaration also calls for new investments to promote related causes – from eco-friendly infrastructure and clean energy to better pandemic preparedness through to education and waste management. But it does not say where the money will come from, apart from hints that the private sector must play a role and multilateral institutions should be involved. Isn't the greatest problem we face today that all nations lack the fiscal space they need? I think the declaration says too little about related topics, from taxes to climate finance to sovereign debt.
I empathise with your wish to see a grand global plan. However, the lack of it does not amount to an unwillingness or an inability to respond to problems. The G20 are doing so in incremental steps. The declaration endorses OECD efforts to improve international cooperation on raising taxes and stemming tax avoidance, and it refers to the UN summit on development finance in Addis Ababa in 2015, which emphasised that developing countries must improve their tax system to mobilise domestic resources.

Indonesia's coal-fired power stations, including in Labuan, will be phased out.

Photo: picture-alliance/ZUMAPRESS.com/Angga Budhiyanto

It may look piecemeal, but don't forget, the G20 are a club of 20 powerful but competing governments. They really cannot do much more than to support – and perhaps strengthen – existing international and multilateral initiatives. In regard to the fiscal space of least developed countries (LDCs), moreover, the G20 actually did take important steps. G20 members are increasingly allowing LDCs to use for developmental purposes special drawing rights (SDRs) which belong to the G20 members. SDRs are an internal IMF monetary reserve asset. They are distributed according to each member's quota proportion at the IMF. The Fund issued new SDRs in 2021 to ease fiscal constraints in the pandemic and distributed them according to countries' quota of IMF shares, so the high-income countries got much more than the LDCs. It is promising that G20 members are becoming less hesitant to letting LDCs use those assets.

What about climate finance?
Well, the declaration does reiterate that all existing promises must be fulfilled. It also indicates that more is needed. From the Indonesian perspective, the deal to phase out the country's coal-fired power stations in the next 10 years was most important. It was concluded in the context of the summit but does not feature in the declaration. The deal is worth $20 billion and includes support from the EU, other G20 partners and the private sector. A similar deal was concluded with South Africa last year, and another one is planned with Vietnam. These are all sensible steps in the right direction.

My hunch is that sovereign debt issues, which are getting worse in many places, deserved more attention.
But the declaration does take account of them. It explicitly mentions the cases of Zambia, Chad and Ethiopia, where it appreciates the stance taken by the IMF. It also expresses concern for debt problems increasing in middle-income countries – and all of this reveals a willingness to act eventually. Without the suspension of least developed countries' debt servicing during the pandemic, the situation would be much worse today. The G20 made the suspension happen.

Isn't the real problem that the G20 do not agree on what to do regarding debt restructuring. China has a pattern of extending, but not forgiving loans. Some policymakers of high-income countries accuse Beijing of ensnaring LDCs in debt traps. In many ways, Chinese lending has resembled development lending by established donors in the 1970s or 80s, focusing on infrastructure in the hope of triggering growth, but ultimately leading to over-indebtedness. Obviously, the governments of high-income countries are not fond of debt relief either, but, unlike China, they have the experience of how useful multilateral debt relief was around the turn of the millennium.
Yes, those are interesting issues, but I think the strong point of the G20 summit was that it did not relitigate the past. So if western governments had started admonishing China for its lending, China could have responded by complaining about quantitative easing. It was wise to stay away from blame games and look forward instead.

IWAN J. AZIS
is a professor at Cornell University in Ithaca, New York, and visiting professor at the University of Indonesia in Jakarta. He served as a research advisor to the Indonesian central bank, participating in several pre-G20 seminars.
http://iwanazis.com/

GOVERNMENT REVENUES

How to increase the fiscal space

The budgets of many developing countries and emerging markets are far too constrained. Things could be different.

By Praveen Jha

To understand the straits many governments find themselves in, it helps to take a long-term perspective. Starting from the late 1970s, it has become increasingly difficult to raise taxes. It was much easier earlier, in the era of regulated capitalism after World War II. The top marginal income tax rate was 97% in India at one point. In Britain the highest rate was 95% and even in the USA it was 92%.

In the post-war period, economic growth was strong. Public spending served to build infrastructure and to reduce inequality. In both developed and developing countries, productivity increased fast. An unintended side-effect was a propensity towards tax evasion; but it was not strong enough to undermine the resource mobilisation and developmental capacity of states.

A paradigm change soon followed with the ascendancy of market fundamentalism since the early 1970s, led by Prime Minister Margaret Thatcher in Britain and President Ronald Reagan in the USA. The World Bank and the International Monetary Fund were strong proponents as well. The emphasis was now on the unrestrained flow of goods, services and capital internationally. Market dynamics were expected to deliver the best results, and the economic policy autonomy of nation states was reduced dramatically. The era of neoliberal globalisation had begun.

A well understood consequence was that finance capital has become extremely powerful. The flow of money across borders today far exceeds transactions related to trade and productive investments, in large measure due to speculation focused on a host of different financial assets including company shares, government bonds, currencies, commodity futures and other derivatives. Although measuring financialisation is tricky and complex, a simple estimate – the ratio of the value of global financial transactions to the value of transactions in global trade – points towards the gravity of the issue.

This ratio increased by a factor of 45 from 2:1 in 1973 to 90:1 in 2004. Indeed, in 2017, the annual value of the global trade was $17.9 trillion. By comparison, the financial transactions amounted to 5.1 trillion per day that year, according to a Transnational Institute publication by Frances Thomson and Sahil Dutta (2018).

British Prime Minister Liz Truss and Chancellor of the Exchequer Kwasi Kwarteng were only in office for a few weeks because financial markets rejected policies that were supposed to please them.

Photo: picture-alliance/ASSOCIATED PRESS/Stefan Rousseau

MARATHON RUN TO THE BOTTOM

Financial investors do not like income and corporate taxes. Accordingly, governments around the globe reduced their tax rates. A marathon run to the bottom began, with nations gradually reducing tax rates to keep their economies competitive. In prosperous nations, the marginal top rate is now typically below 50%. Wealth and inheritance tax, which investors resent even more, withered away as well.

Governments around the world increasingly began to rely on indirect taxes such as the value added tax, which hit spending for consumption purposes and particularly hurt low-income households which must spend most of the money they earn to fulfil their daily needs.

The cumulative result has been that all nation states are now struggling to generate the tax revenues they need. As a result, sovereign debt has soared around the world, with government spending increasingly being financed with the sale of bonds. Bonds are basically loans to the government that issues them.

The situation is particularly difficult in developing countries. The members of the OECD (Organisation for Economic Co-operation and Development), a club of high-income countries, on average have a tax-to-GDP ratio of 33%. The range of tax-to-GDP ratio for low- and middle-income countries lies between 10 % to 30 %, mostly towards the lower end. Although different international agencies estimate tax-to-GDP ratios differently, the basic insight is the same: The developing world is actually closer to market fundamentalists' ideal of a "small state", in which there is little government interference in economic life, than OECD nations are.

LONG LIST OF CHALLENGES

The international community today must cope with multiple crises. The list of problems is long and includes global warming, the erosion of biodiversity, high inflation, excessive sovereign debt, lingering impacts of the pandemic, the consequences of Russia's attack on Ukraine and more. Quite obviously, governments cannot rise to the challenge unless their fiscal space increases. This is particularly true of developing and least developed countries. Typically, their national debt is high and dollar denominated. A higher exchange rate means the debt burden increases because it takes a larger share of their GDP measured in the national currency (see André de Mello e Souza on page 24 of this issue). Further, their tax revenues remain low due to two reasons:

- Many people's livelihoods still depend on subsistence farming, which is not monetised and thus does not count.
- There is very much informal economic activity, which largely bypasses legal regulations and is not taxed.

The smaller a country's GDP per capita is, the lower its tax revenues tend to be. Therefore, the governments of low-income countries find it especially hard to build infrastructure and provide public services.

It is therefore important to focus on how to widen and deepen the tax base. There are several critical issues in this context, including especially the collection of direct taxes on income and wealth, the reliance on social-protection levies and the curbing of illicit financial flows (see box).

International debate tends to focus on official development assistance (ODA) as though it were of crucial importance. According to the OECD, the governments of high-income countries spend about $179 billion on assisting the developing world. That is roughly twice the amount of illicit financial flows from Africa alone, if one trusts UN estimates. Illicit flows, of course are impossible to measure precisely, and other sources

Broaden and deepen tax base

There are three things that matter in particular when it comes to increasing the tax revenues of the least developed and developing countries. Taxes should be progressive, levies to fund social protection are needed, and illicit financial flows must be reduced:

- It is important to widen the tax base and introduce more targeted tax legislation. It is not enough to tax consumption with sales or value added taxes. These taxes are regressive; they hurt low-income people the most. What is needed are taxes on personal incomes, corporate profits, personal wealth and inheritance. These taxes burden those more who are strong enough to carry a greater weight. A rough estimate of my JNU colleague Prabhat Patnaik shows that, in India, just steps could increase total tax revenues by up to 70 %. They would be imposing a two percent wealth tax on the top richest one percent of the population as well as inheritance tax of 25 %, levied on their fortune, should they pass away (assuming that five percent of the richest people bequeath their wealth to their children every year). On the other hand, "sin taxes" on carbon emissions or luxury goods like alcohol can make sense too, though the potential for generating revenues is much smaller. Taxes on international financial flows would obviously help increase the fiscal space too.
- Unlike high-income countries, low- and middle-income countries generally do not collect what is called social-protection contributions in Germany, payroll taxes in the USA or national insurance in Britain. This money is collected like an income tax and is used to pay for old-age pensions, unemployment benefits and other social-protection schemes. Low- and middle-income countries would benefit from such systems too, and the big challenge is to formalise the informal sector in order to be able to register the payers.
- The international community must get a grip on illicit financial flows. From sub-Saharan Africa alone, they amounted to up to about $89 billion according to UNCTAD's 2020 estimates. These flows include revenues from illegal drugs and arms smuggling, human trafficking, and other forms of organised crime. They also include illegal tax evasion as well as legal forms of tax avoidance, such as "profit shifting" which means that a multinational corporation declares profits made in one country and shifts them to another one with much lower tax rates or even no taxes ("tax havens"). PJ

Taxing wealth would make a difference: billionaire Gautam Adani (front) attending a business summit in Kolkata in April 2022.

Photo: picture-alliance/NurPhoto/Debajyoti Chakraborty put the figures much higher. In 2012, the illicit financial flows out of developing countries probably amounted to $1 trillion according to a working paper published jointly by the International Labour Organization, UNICEF and UN Women (Ortiz et al., 2017). The ODA developing countries received that year from OECD nations, however, was one eighth of that amount, a mere $120 billion.

The truth is that ODA is really only a tiny fraction of the total international transactions. In past decades, far more money has moved from the global south to the global north. Aid thus only amounts to a small band-aid on a blistering wound. Concerted action to relieve and restructure sovereign debt, however, would help many economies in crisis today, especially as the rising exchange rate of the dollar is making their debt burden harder to service.

Moreover, ODA pledges keep being broken. Since the 1970s, the high-income countries were supposed to pay 0.7 % of the gross national income. On average, they are now paying 0.33 %. It fits the picture that climate-finance promises are not being fulfilled dutifully either. Quite obviously, that must change.

All these things matter, but they will stay very hard to implement unless the international community adopts a new paradigm that focuses more on real-economy problems than on the flimsy preferences of finance capital. Market dynamics have not prevented the escalating crises we are facing. To a large extent, they have made them happen. Instead of empowering oligarchs, public policy must serve to fulfil the daily needs of the masses and ensure the sustainability of nature, on which the viability of each and every society depends.

In the current context, it is becoming increasingly clear that the ideology of the "small state" is a recipe for disaster. The next paradigm shift may actually be under way. It was fascinating how financial markets recently punished Liz Truss, Britain's seven-week prime minister, for policy choices that were meant to please them. Truss wanted to cut taxes and increase debt. Investors responded by driving up the costs of bonds, making her strategy unfeasible and forcing her to resign.

It is also noteworthy that the rhetoric of the International Monetary Fund and the World Bank has changed, though their stance in negotiations with low-income countries has largely remained the same (see Rehbein and Stutz on page 26 of this issue). This, of course, is the area where change is most needed.

REFERENCES

Ortiz, I., Cummins, M., and Kurananethy, K., 2017: Fiscal space for social protection and the SDGs.
https://www.social-protection.org/gimi/RessourcePDF.action?id=51537

Thomson, F. and Dutta, S., 2018: Financialisation: a primer.
https://www.tni.org/en/publication/financialisation-a-primer

PRAVEEN JHA
teaches economics at Jawaharlal Nehru University (JNU) in Delhi.
praveenjha2005@gmail.com

MACROECONOMICS

The burden of the strong dollar

The US dollar is currently appreciating fast. Against the backdrop of slumps caused by Covid-19 lockdowns and the Russian invasion of Ukraine, this trend is causing difficulties in many developing countries and emerging markets. The central banks of high-income nations pay little attention to the global implications of their decisions.

By André de Mello e Souza

Exchange rates have recently become increasingly volatile. In view of inflation, the Fed (Federal Reserve – the central bank of the USA) has adopted a hawkish policy, raising interest rates several times. The federal funds rate was close to zero at the start of the year and is now in the range of three to 3.25 %. For several reasons, this effort to control rising prices increases recession risks not only in the USA and may indeed lead to a global downturn.

The pandemic and the war have generally increased uncertainty. Investors have therefore become more risk averse. Moreover, higher interest rates make investments in the real economy, which are important drivers of growth, more expensive. The reason is that these investments are normally financed at least in part with loans. High interest rates therefore generally reduce growth. This mechanism applies to all economies, including the USA.

The big irony is that a central bank's interest rates have only very little impact on energy and food prices, which are currently the main drivers of inflation. However, higher rates do make investments in clean energy more expensive, which would reduce the relevance of fossil-fuel imports and make economies more environmentally sustainable.

The Fed's new stance has further impacts internationally. Higher interest rates in the USA are an incentive for international investors to seek the safe harbour afforded by the dollar. Accordingly, the exchange rate of the dollar keeps rising relative to the currencies of most economies. At the same time, the strong dollar tends to hurt particularly developing economies in several ways:

- Many of them – and especially the least developed countries – cannot borrow in their own currencies. They must service dollar-denominated loans in dollars. Servicing means paying back the loan plus the interest rate. As the dollar appreciates, their loans thus become more expensive measured in their national currencies. Sovereign debt burdens, which are already a huge problem in many countries, are becoming heavier.
- To keep their own currencies from depreciating, the central banks of other countries must follow the Fed's example and raise interest rates. They are already quite high in many developing countries and emerging

Exchange rates on display in Rio de Janeiro in mid-October.

markets. While higher interest rates help to stem capital flight into safer financial assets in the USA, they make real-economy investments even less attractive.

- Should a dollar-denominated loan need to be refinanced, the new loan will not only come at a higher exchange rate but also at a higher interest rate.

The current situation is extremely challenging. On the one hand, central banks in developing countries want to encourage the inflow of foreign investment. On the other hand, rising interest rates increase the cost of domestic borrowing and have a stifling effect on growth. In the longer run, lower growth is also likely to undermine government revenues, further worsening debt problems.

IMPACTS ON TRADE

The stronger dollar also has impacts on trade, especially since the US currency dominates international transactions. Even companies that operate in non-dollarised economies use it to settle deals. Commodities, in particular, are generally bought and sold in dollars everywhere, so countries that export commodities may actually benefit from the strong dollar to some extent.

Other countries, however, often see their exports increase too. The reason is that the high exchange rate of the dollar makes their goods comparatively cheap in the eyes of foreign buyers. On the downside, imports are becoming more expensive in terms of domestic currencies. That applies both to consumer goods – including food, which some countries depend on – and intermediate goods that are needed to produce other goods. As a result, domestic firms may be forced to reduce investments and/or output.

It matters very much that most developing economies are so-called "price-takers". The term means that they are unable to influence world-market prices. As they depend on global trade, they are forced to sell their goods at whatever prices are currently paid. All told, while economies with strong export sectors may benefit from a strong dollar because it allows them to sell even more abroad, most economies suffer.

The high volatility of an exchange rate, moreover, is a problem in itself. Fast and unpredictable changes in external value of a currency contribute to the general sense of uncertainty. The fastest changing exchange rate this year so far was that of the Russian rouble (mostly because of the war), followed by the Turkish lira and the Brazilian real. Such volatility tends to be counterproductive for the real economy, because it causes abrupt reversals in capital flows and undermines planning. The threshold above which exchange-rate volatility starts to negatively affect the real economy is usually lower in small economies than in large ones.

Finally, excessive exchange-rate volatility has implications for monetary policy. It may make monetary policy ineffective, particularly when there are inconsistencies between the policies of the central banks and the ministers in charge of finance and economic affairs. Persistent central-bank interventions to stabilise exchange rates can incur high costs moreover. That can be the case in terms of dwindling foreign reserves and/or the central bank buying assets of dubious value.

The appreciating dollar is currently compounding economic problems in many places. The Fed's new policy means tougher times for most disadvantaged nations. To a lesser, but nonetheless important extent, that applies to the European Central Bank (ECB) too, which is also, though more slowly, increasing its rates.

The central banks of high-income nations do not have a history of considering impacts on poorer world regions. People in developing countries and emerging markets are used to the pattern of established western powers appealing to the global common good when its suits them, but pursuing narrowly understood national interests when they can.

Unfortunately, developing countries have few options to deal with the challenges of exchange rate depreciation and volatility in the short term. These challenges are best addressed pre-emptively rather than reactively. Generally speaking, the governments of developing countries should only engage in sustainable borrowing and always ensure that they have a strong flow of domestic revenues.

Even in troubling times, however, policymakers must do their best to find ways to incentivise investments in order to boost economic growth at the same time as they must reduce fiscal pressures. The international community, in turn, must do more to accelerate debt restructuring, which will be crucial for putting developing countries back on a more sustainable fiscal path.

ANDRÉ DE MELLO E SOUZA is an economist at Ipea (Instituto de Pesquisa Econômica Aplicada), a federal think tank in Brazil.
andre.demelloesouza@alumni.stanford.edu

Photo: picture-alliance/EPA-EFE/ANDRE COELHO

Sri Lanka is broke: protesters in Colombo in April 2022.

Photo: picture-alliance/ASSOCIATED PRESS/Eranga Jayawardena

IMF

Debt policy must be reformed

The International Monetary Fund (IMF) is playing a crucial role in the current global debt crisis. Its analyses help determine creditors' approach to dealing with a country's debts. The IMF must do more to end procrastination and address the problems in a constructive manner.

By Kristina Rehbein and Malina Stutz

Kristalina Georgieva, managing director of the IMF, and David Malpass, the president of the World Bank, are among the loudest voices calling for fast debt relief for critically indebted countries. But instead of encouraging countries that are at risk of debt distress to restructure their debt, the IMF has a pattern of avoiding this advice to individual cases. Country reports only mention debt restructuring rather hesitantly as a possible option. The IMF is similarly reluctant to make restructuring a precondition for granting new loans.

In more than 100 analyses that it conducted from November 2020 to January 2022, the IMF only cited debt relief as a possible option for five of 44 countries at high risk of over-indebtedness. The five countries are Angola, the Seychelles, Malawi, Chad and Suriname. Suriname was actually already in default, and debt restructuring negotiations were underway for Chad. In all other cases, the IMF either did not consider restructuring or did not mention it as a way to improve debt sustainability. This stance is problematic given that the IMF's recommendations serve as guidelines for governments.

This is even more relevant when the IMF serves as lender of last resort in a time of crisis. According to its own statutes, it may only lend to countries whose ability to repay the IMF is highly probable. If the IMF decides that this is not the case, it must make any new loan dependent on the country's creditors reducing the burden by cancelling at least some of the debt.

This rule makes sense because a debtor state could otherwise use IMF money to postpone an inevitable debt restructuring, using the new loan to continue servicing the old ones. If a country is not just temporarily short of cash, but actually overindebted, however, it is most unlikely to get back on its feet again without debt relief.

If debts are paid with IMF loans, but restructuring later becomes unavoidable nonetheless, we must assume that some creditors will have pulled out of the country, shying away from any contribution to solve the crisis. By implication, multilateral lenders like the IMF would have to shoulder a larger burden and future debt restructuring would become even more difficult. The reason is that loans from multilateral lenders like the IMF are considered non-restructurable.

In the 1980s, debt was shifted from private to public multilateral lenders that way. As a result, many countries' debt problems dragged on for a long time. When debt relief was finally granted, not all creditors contributed equally. A similar trend is evident in recent years.

RECORD LENDING IN THE CRISIS

In 2022, the IMF lent money at record levels for the third year in a row. However, it also considers over half of low-income countries to be at the risk of debt distress. The institution is clearly not adhering to its own guidelines. It has issued loans even in cases where it identified a high risk of debt distress, without demanding restructuring first.

While the IMF is very reluctant to recommend restructuring, it does not hesitate to demand rather stringent adjustment measures in debtor countries. Fiscal consolidation is the Fund's standard recommendation to reduce the debt ratio. Thus budgetary cuts are now planned in 94 low- and middle-income countries for 2023, according to a recent report written by Isabel Ortiz and Matthew Cummings, two high-profile IMF observers.

This trend has been evident since the mid-2010s. It was only briefly interrupted in 2020 because of Covid-19. It is true that this is not in all cases due to IMF conditionalities. Nonetheless, the IMF is co-responsible for budget cuts being seen as unavoidable in many countries due to its annual surveys and recommendations.

The most common consolidation measure in the global south is to reduce welfare spending. That is being planned in 88 countries. Social services will henceforth only be available to those who are supposedly truly needy, and a large share of low-income households will be excluded.

In order to increase revenues, governments typically do not rely on progressive taxes on income, corporate profits or wealth. Instead, they focus on consumption taxes which place the greatest burden on those with the lowest incomes. The costs of the debt crisis are thus passed on to the people. Internal IMF analyses show that measures of this kind often make the economic situation deteriorate further.

When debt restructuring negotiations do indeed begin, creditors rely on IMF calculations on the necessary debt relief envelope. In the past, the Fund has repeatedly minimised that need, for instance by making particularly optimistic forecasts about future economic growth. That happened in the case in Greece after 2010, for example.

Even today, such scenarios seem likely. Consider for example the cases of Sri Lanka and Zambia (see Peter Mulenga et al. on www.dandc.eu). In first, the IMF appreciates the necessity of restructuring, and in the second, related negotiations are underway. In both cases, however, the IMF based its calculations on budget surpluses that exceed those of neighbouring countries. With regard to Zambia, moreover, the IMF only recommended easing debt-service requirements, but did not propose cutting the debt level. The irony is that internal IMF studies show that restructuring tends to be more effective in restoring debt sustainability when they reduce the capital that must be paid back.

The IMF has made Zambia's prospects look good – market women in Lusaka.

The current debt crisis is also marked by individual creditors – and groups of creditors – showing little interest in debt restructuring. The IMF could make a difference however.

First of all, multilateral development banks and the IMF should stop insisting that their claims cannot be restructured under any circumstances. In at least 38 low-income countries, multilateral obligations make up over 50 per cent of outstanding external debt. As long as the World Bank, the IMF and similar bodies refuse in principle to renegotiate their own claims, it is understandable that other creditors will also remain unwilling to make concessions.

Second, the IMF can exert pressure on uncooperative creditors through its lending policy. The Lending into Arrears Policy allows the IMF to make financing available to highly indebted countries even when they are in arrears to private or public creditors. Proactive use of this policy, like IMF Director Georgieva proposed in December 2021, could encourage creditors to agree to the necessary debt relief measures.

For a timely and fair solution to the current debt crisis, current IMF practice must change.

- First of all, in the case of critically indebted countries, the institution should mention debt restructuring and debt relief as standard options in the annual country reports.
- Second, when the debt burden of an applicant country is critical even though it is still servicing loans, restructuring must become a precondition of the IMF issuing a new loan.
- Third, the conditions of debt relief must be based on realistic forecasts of a country's future economic development.
- Fourth, adjustment measures must not reduce benefits to vulnerable groups.
- Finally, the IMF should use its resources to boost the willingness of other creditors to agree to debt relief. For that purpose, it must question the exempt status of its own claims in restructuring negotiations.

No sensible and detailed criticism of the IMF should lose sight of the fact that faulty IMF policies result from a structural inequality. On top of the reforms proposed here, it is thus necessary to reduce the IMF's scope of duties and distribute them among various institutions in the UN system, as Jürgen Kaiser proposed in 2018 in E+Z/D+C (Digital Monthly 2018/08).

KRISTINA REHBEIN
is a political coordinator at *Erlassjahr.de*.

k.rehbein@erlassjahr.de

MALINA STUTZ
is a political consultant at *Erlassjahr.de*.

m.stutz@erlassjahr.de

Photo: picture-alliance/Xinhua News Agency/Lillian Banda

GENDER DISPARITIES

Women and girls fare worse

Everyone knows that economic downturns cause hardship. It is less well understood that women and girls tend to suffer in particular. This trend is especially strong where gender disparities are large – in Pakistan, for example.

By Sundus Saleemi

Pakistan is in the midst of a severe economic crisis. Recent unprecedented floods have compounded serious pre-existing problems (see box next page). The situation is desperate – especially for women and girls.

Esther Duflo, the Nobel Prize-winning economist, is among those who have studied gender patterns in the impacts of economic crises. In a journal article of 2012, she reported serious divergence in the nutrition of girls and boys during economic crises. Moreover, she showed that, in some parts of the world, the excess mortality of girls relative to boys spikes during droughts, which may cause economic crises in countries where agriculture is an important sector.

Duflo also noted that female infants were twice more likely than male infants to die of diarrhoea in poor parts of New Delhi. In a similar research effort Sonia Bhalotra (2019), an economist at the University of Bristol, showed that infant mortality of girls in rural Indian households correlates negatively with economic growth. It goes down when the economy is strong, but goes up in recessions. No such research has been done in Pakistan, but South Asian cultures are so similar that we must expect the mortality rate of girls to increase disproportionately in the current economic disaster.

MISSING WOMEN AND GIRLS

Downturns thus contribute to the phenomenon of "missing women", that Amartya Sen spelled out in the British Medical Journal in 1993. He compared sex ratios at birth to the sex ratios in the population of several countries. The result was that the female populations of a number of particularly male-dominated countries, including China, India and Pakistan, were several tens of millions too small. According to Sen the causes were that

- many female infants and girls died prematurely due to negligence, while a greater number of boys in their age group survive, and
- many women of reproductive age died due to inadequate health care, in particular in the context of giving birth.

This kind of disparity is a shocking manifestation of structural gender inequality. The current crisis will aggravate things in Pakistan, where maternal mortality is normally high, with 140 deaths per 100,000 live births. The flood-induced loss of infrastructure will compound problems, especially as the cash-strapped government cannot plug gaps. In September, the UN Population Fund (UNFPA) estimated that over 650,000 pregnant women needed or would need maternal and reproductive health care in Pakistan's flood-affected areas.

Other gender-specific health risks are getting worse too. When incomes decline, households cut back on healthy and nutritious foods. Male family members, however, tend to eat first, so women and girls only get their leftovers – which means their diets become increasingly unbalanced.

Lacking access to clean energy, moreover, leads to yet more women being exposed to toxic indoor pollution when cooking with dirty fuels such as wood or dried cow dung. A study of rural and urban households in India showed that rates of coughing were up to 60 % higher among women who used those fuels. Clean energy – electric power and natural gas, for example – is more expensive, so households often switch to dirtier options during crises. Infrastructure damages, moreover, have reduced access in some places.

In 2002, Sen updated the number of missing women and girls in another short essay in the same journal. He now reckoned that about 100 million women and girls were missing from the countries concerned. This time, he added another cause: sex-selective abortions that deny life to female foetuses. Sex-selective abortions are common in countries with a strong preference for male children.

In India and Pakistan, one driver of this depressing trend is that parents expect their sons to take care of them in old age, whereas daughters will marry, join another family and thus not be of help. Poor people,

Burning cheap cow dung causes hazardous indoor air pollution.

Photo: picture-alliance/EPA/epa Rehan

of course, cannot afford abortions, but there is an equally disturbing pattern of girls being abandoned. That happens especially when times get tough. Bilquis Edhi was the founder of Pakistan's largest charitable organisation that takes care of abandoned children in Pakistan. She observed that 95% of children left in the Edhi Foundation's cradles were girls, and poverty was the main reason why families could not take care of them.

Education is another field in which girls are disadvantaged. Parents typically invest more in their sons' schooling, but hardly worry about their daughters' academic achievements.

As is true of girls' mortality, this trend gains force in times of crisis. Data from rural Pakistan show that when households slide into poverty due to an external shock, girls drop out of school first. We must therefore expect the current crisis to have that consequence for many girls. This one-time shock will have long-term impacts. After all, poorer education results in fewer and less attractive job opportunities. Female empowerment, however, depends on education and employment.

In Pakistan's informal sector, women are indeed over-represented. The implication is that they cannot expect subsidies or insurance payouts to support them when they lose their jobs in times of crisis.

In economic crises, moreover, crime and violence tend to increase. Data on crimes against property in the province of Sindh shows a sharp increase in at least five categories from January to July 2022. These categories include robbery, burglary, motorcycle snatching and theft. This rise probably has many reasons, but the economic situation is certainly one of them.

Moreover, psychological distress due to lost incomes and rising prices often results in domestic violence. Women and girls are the main victims. An important driver is psychological distress due to loss of income and livelihoods on the one hand and the rising cost of living on the other. As scarce economic opportunities become even scarcer in downturns, women's ability to walk away from violent situations at home is reduced too.

REFERENCES

Bhalotra, S., 2010: Fatal fluctuations? Cyclicality in infant mortality in India. Journal of Development Economics, 93(1), 7-19.
https://www.sciencedirect.com/science/article/abs/pii/S0304387809000388
An earlier version (2007) is freely available at:
https://d-nb.info/986000647/34
Duflo, E., 2012: Women empowerment and economic development. Journal of Economic Literature, 50(4), 1051-79.
https://www.aeaweb.org/articles?id=10.1257/jel.50.4.1051
Maji, P., Mehrabi, Z., and Kandlikar, M., 2021: Incomplete transitions to clean household energy reinforce gender inequality by lowering women's respiratory health and household labour productivity. World Development, 139, 105309.
https://ideas.repec.org/a/eee/wdevel/v139y2021ics0305750x20304368.html
Sen, A., 1992: Missing women. BMJ: British Medical Journal, 304(6827), 587.
https://www.ncbi.nlm.nih.gov/pmc/articles/PMC1881324/
Sen, A., 2003: Missing women — revisited. BMJ, 327(7427), 1297-1298.
https://www.ncbi.nlm.nih.gov/pmc/articles/PMC286281/

SUNDUS SALEEMI
is a senior researcher at the Center for Development Research (ZEF) of Bonn University.
sundus.saleemi@gmail.com

Desperate times

Pakistan's economic problems are rooted in structural weaknesses. The difficult political situation compounds them.

Pertinent weaknesses include the huge informal sector, heavy dependence on an unreformed agriculture sector and poor infrastructure. There has been far too little public and private investment in education, skills, training and research. Investable capital is locked in unproductive assets such as speculative real estate. The legacy of extractive colonial institutions including a resource-devouring military, the landed elite and a corrupt bureaucracy do not help. Radical Islamism, moreover, has often proven disruptive.

Sovereign debt has become a huge burden, so the fragile, multi-party government faces tight budgetary constraints. It actually needed – and got – an IMF bailout worth $1.2 billion this year.

International factors such as volatility in the global food and energy markets as well as the strong dollar are compounding domestic problems. Inflation was slightly above 23% in September after a 49-year peak in mid-2022.

As the recent floods wreaked unprecedented havoc, the situation is set to worsen in the coming months and possibly subsequent years as well. Harvests were destroyed, livestock was depleted and, in many places, it became impossible to start the next planting seasons. Food prices are thus expected to rise even more.

In mid-October, Prime Minister Shehbaz Sharif called on international donors to provide extra loans to repair the flood damages. He hinted that the country's political stability is at stake. Indeed, populist leader Imran Khan is benefiting from wide-spread discontent.

Sharif's appeal to donors was an unorthodox step, given that Pakistan's sovereign debt is already very high. Desperate times, however, require unconventional action. The international community should do whatever is possible in support of Pakistan, and particularly its vulnerable groups, including the female population. SS

Zambia depends on copper mining.

ZAMBIA

Lifting the state out of bankruptcy

Though Zambia is a democratic, politically stable country, it struggles to find its footing economically. Since independence in 1964, the landlocked nation in southern Africa has faced a number of debt crises. In 2020, it was forced to declare insolvency in the wake of the coronavirus crisis. The International Monetary Fund (IMF) granted Zambia a multi-billion dollar bailout, which is conditional upon tough austerity measures – as well as innovative debt restructuring, which is currently being negotiated.

By Peter Mulenga, Chibvalo Zombe and Charles Chinanda

Even before the advent of Covid-19, Zambia was at high risk of overindebtedness. The mainstay of its economy is the production of copper, the world-market price of which is quite volatile. It had been falling in the years preceding the pandemic. Another important economic sector is agriculture, which has also suffered in recent years due to droughts.

Since 2006, Zambia has been struggling with a growing mountain of public debt. As a result, debt- servicing costs increased exponentially (Saungweme and Odhiambo, 2018). In 2019, the IMF conducted a debt sustainability analysis, which revealed that the debt burden was increasingly suffocating the economy and pushing Zambia towards national bankruptcy. The main cause was high budet deficits due to infrastructure spending, as experts from the World Bank subsidiary IDA (International Development Association) argued in 2019.

According to the IMF definition, debt sustainability means that a sovereign government is able to meet its current and future debt payment commitments without going into default or having to request additional financial assistance. In 2020, Zambia no longer met this criterion. It stopped servicing external debt in November. The country was found to have accumulated $17.3 billion in external debt. About a third of it was owed to Chinese lenders. The total debt amounted to around 120 % of gross domestic product (GDP).

MULTILATERAL COMPLEXITY

The government of President Edgar Lungu hoped in 2020 that help would be forthcoming from the IMF. But its relations with the Fund were strained. In 2016, it had applied for a $1.6 billion aid package, which the IMF had never approved. Lungu was considered to be tainted by corruption and to lack commitment to economic reform.

The IMF has more confidence in the new President Hakainde Hichilema's readiness to implement reforms. After the change of government in 2021, he concluded an agreement with the IMF. The Fund would grant a loan of around $1.3 billion to restore the country's macroeconomic stability, but it would be conditional upon tough austerity measures and clear accountability.

The deal hinged on innovative debt restructuring, which has yet to be agreed and will involve all of Zambia's creditors. That includes Chinese institutions. So far, China was normally generous in terms of postponing payment obligations, but very restrictive in terms of forgiving debt. According to the Common Framework for Debt Treatment, which the G20 adopted in 2020, an Official Creditor Committee for Zambia was established, and accordingly the IMF approved the $1,3 billion loan in the summer.

The Committee is chaired by France and China. The negotiations to set it up were difficult, and so are the talks regarding debt restructuring, with China demanding "clarifications" from the Zambian government and the IMF. An agreement is expected by the end of 2022 or soon after. It could serve as a template for similar negotiations regarding other over-indebted countries.

The deal should enable Zambia to transform its budget deficit – currently running at six percent of GDP – into a surplus of 3.2 % by 2025. That will require massive cuts in public spending. Accordingly, the government has thus rolled back subsidies on fuel and food. Petrol and diesel prices have risen more than 50 % since it did so.

To generate sustainable tax revenues, the government is also seeking reforms in the 2023-2025 budget. It wants to create a predictable environment for the mining industry, including stable copper prices and better electricity supply. That will strengthen the economy and thus boost macroeconomic stability. Whether the reforms will succeed is uncertain. History shows that

Photo: picture-alliance/REUTERS/Salim Henry

IMF programmes sometimes result in an upswing, but sometimes fail. It depends on a country's economic situation and whether it is a low- or middle-income country.

Graham Bird and Dane Rowlands warned in an empirical analysis in 2016 that IMF conditions often proved harmful for low-income countries. According to the two researchers, budget cuts reduce aggregate domestic demand by too much and thus keep people in poverty.

Regardless of such criticism, the IMF programme is essential for the survival and revival of Zambia's economy. Without the additional money, the Zambian government would have had no options at all. In such an emergency, the IMF is an important source of financing because commercial lenders hardly give new loans to insolvent borrowers – and if they do, they demand even tougher conditions. However that may be, Zambia is on a better path now. Growth rates of up to four percent are anticipated in 2022 and 2023. Thanks to the IMF loan, the government has a chance to achieve macroeconomic stability. At present, the country has a strong trade surplus and a stable exchange rate.

However, experience shows that the situation can easily be reversed if the price of copper falls. Moreover, the fast appreciating US Dollar is making foreign loans more expensive, which affects all developing countries and emerging markets. Whether Zambia is on a sustainable course for the long term remains to be seen. Sooner or later it may need IMF assistance again.

REFERENCE

Saungweme, T., Odhiambo, N. M., 2018. An analysis of public debt servicing in Zambia: trends, reforms and challenges. Croatian International Relations Review, Vol. 24 No. 81.

PETER MULENGA
is lecturer in economics at Copperbelt University in Kitwe, Zambia.
peter.mulenga@cbu.ac.zm

CHIBVALO ZOMBE
is also lecturer in economics at Copperbelt University.
chibvalo.zombe@cbu.ac.zm

CHARLES CHINANDA
is a recent graduate of economics at Copperbelt University.
charliechinanda@gmail.com

In the course of decades

Zambia has the potential to achieve growth in various sectors, including manufacturing, agriculture, services and mining. However, due to infrastructure shortcomings, the country relies heavily on a single industry: copper mining. It accounts for around 12 % of gross domestic product (GDP). Fluctuations in the world-market price of copper quickly affect the entire economy. In the past, falling prices frequently plunged the country into crisis.

Zambia has struggled for decades with high levels of national debt moreover. This problem is connected to copper exports. When the copper price collapsed in the 1970s, the country suffered an economic shock. To finance public spending and revitalise the economy, it borrowed from western banks. As a result, the national debt soared from $800 million to $3.2 billion.

When the United States raised interest rates in the late 1970s, Zambia found itself in a financial crisis. The dollar exchange rate rose, so servicing debt became much more expensive in the local currency (see André de Mello e Souza on page 24 of this issue).

Back then, the International Monetary Fund (IMF) granted Zambia an emergency loan, but made the financial aid conditional upon structural adjustment programmes. The measures required included freezing public sector salaries, liberalising trade and privatising state-owned companies.

Nevertheless, the national debt continued to grow. As the price of copper fell further, austerity proved a drag on growth, while liberalisation failed to bring the anticipated broad-based upswing. By the end of 2004, Zambia's external debt had risen to $7.4 billion.

In 2005, however, the situation improved thanks to the multilateral Heavily Indebted Poor Countries Initiative (HIPC). Debts totalling $6.6 billion were cancelled. Meanwhile, commodity prices rallied on the world market. Zambia enjoyed a number of good years with annual growth rates of seven to nine percent. In 2012, the government started borrowing heavily again to build infrastructure. China was now the biggest creditor.

But from 2015 onwards, growth fell back to an average of three to four percent. It then collapsed altogether in the coronavirus year 2020, with the economy contracting by 2.8 %. In 2021, however, Zambia experienced a moderate economic recovery with 4.6 % growth.

PM, CZ, CC

Infrastructure is poor even in Zambia's capital Lusaka.

Photo: SB

GOVERNMENT REVENUES

How to collect more taxes

Kenya's huge public debt is choking public spending and undermining the economy. The country's new government therefore wants to increase tax revenues.

By Alphonce Shiundu

When Kenya's new President William Ruto addressed the country's Parliament after taking office in September, he did something unusual. Typically, presidential speeches in Kenya focus on how the government will spend money. Instead, Ruto told legislators that he plans to collect more taxes.

The national budget is indeed overstretched. More than half of the national revenues go to paying back the colossal public debt. In the past decade under President Uhuru Kenyatta, the country's debt increased four-fold, not least due to ambitious infrastructure projects. Ruto is not entirely blameless, since he served as Kenyatta's deputy president.

External shocks have made matters worse. They include the impacts of Covid-19, food and fertiliser shortage due to Russia's invasion of Ukraine, high oil prices, persistent drought in Kenya's north and the locust invasion in 2020.

President Ruto (yellow tie) shaking hands with his predecessor Kenyatta on inauguration day.

Photo: picture-alliance/ASSOCIATED PRESS/Brian Inganga

The government obviously needs more money and must therefore generate more revenues. The groundwork for the new tax policy and related forms was actually laid by the Treasury in the summer, before Ruto became the head of state. He has proudly adopted the policy.

What he told legislators must have pleased the embassies of high-income countries. After all, donor countries have a long history of demanding that developing countries should "mobilise domestic resources".

Indeed, Ruto's elaborations showed that he wants Kenya to become more like high-income countries in regard to taxation. He stated several ambitions:

- The rich need to pay more taxes.
- Taxation must become equitable, efficient and customer-friendly.
- Kenya has to net more money from wealth, consumption and incomes, rather than relying heavily on foreign-trade related tax and customs revenues.
- The tax-base must become broader, so more citizens are included.

"The economic principle of equitable taxation requires that the tax burden reflects the ability to pay," Ruto said. He also insisted that "we are overtaxing trade and under-taxing wealth."

To achieve the goals, a host of measures will be needed. The greatest challenge is probably to widen the tax base by gradually including more informal workers in the system (see box).

By comparison, it is much easier to change the name of the tax authority from Kenya Revenue Authority to Kenya Revenue Service. This step makes sense because the new name sounds more friendly and can, to some extent, help repair the agency's reputation of ruthlessness. The Kenyatta administration had weaponised the authority to harass political opponents. This harmful pattern is prevalent in many countries where institutions tend to be weak, and the national administrations feel free to arbitrarily use legal regulations for partisan political purposes. Governance must improve.

SIMPLER LEGISLATION, EASIER PAYMENTS

The government wants to make the tax payment process easier. The focus is on simplifying tax laws and procedures as well as setting up more offices, especially outside urban centres. Awareness-raising efforts are underway too.

Another policy adopted by the previous administration will continue. Since January 2021, the tax authority has been running a voluntary tax disclosure programme. Those who retro-actively declare tax liabilities that they failed to pay between July 2015 and June 2020 get full or partial relief on penalties and interest payments.

The new policy anticipates tax disputes and seeks to make the dispute resolution process more credible. In particular, the tax appeals tribunal's independence has been questioned. The reason is that the head of the tax agency appoints tribunal members in spite of the tax agency being party to disputes. This must change.

All in all, Kenya's current approach to taxation reflects principles outlined by Adam Smith 250 years ago in his classic book "The wealth of nations". The policy recognises that everyone should pay taxes according to their ability. The process must be simple, so everyone understands it. Finally, the point of taxation is not to kill the goose that lays golden eggs – taxpayers must keep enough money to create more taxable income in the future.

For good reason, Kenya's new tax policy proposes more investment in information technology (IT) and continuous IT training of tax administrators. The double goal is to generate revenues from the bustling digital economy and to put a check on cross-border tax avoidance and evasion. Illicit financial flows are a serious international challenge of course.

Kenya's government deserves some praise for having managed to make internet giants like Amazon, Netflix, Google and Meta pay some taxes. However, the tax agency generally appears frustrated because multinational corporations doing business in Kenya often find ways to avoid taxation. For example, they shift profits abroad and declare them in countries with particularly low tax rates. Too many wealthy individuals move their financial assets to offshore tax havens.

To get a grip on both legal and illegal ways of reducing tax burdens, the government wants to regularly review and update international treaties on taxation. Also, the tax agency will set up a special international unit to:

- keep track of cross-border transactions and transfer prices,
- audit multinational corporations and
- monitor changing international patterns of taxation.

Kenya's new policy also includes more information sharing with other tax jurisdictions. High-income countries are increasingly doing that to enforce their laws.

Kenya belongs to two partially overlapping regional organisations, the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Most other EAC and COMESA members, however, have weaker taxation systems, and statehood is actually quite fragile in some countries. Info-sharing with them may thus not help much.

Taxes will apply to some informal work too.

Photo: picture-alliance/REUTERS/NJERI MWANGI

Indeed, Kenya plans to tighten border controls, not least by applying modern IT. The goal is not just to stem security threats and organised crime, but also to put a check on smuggling, infiltration of counterfeits as well as the misdeclaration and misclassification of goods.

The president's rhetoric sounds good, and the new policy makes sense. Implementation, however, will be a huge challenge. External shocks such as extreme weather, market disruptions due to war or yet another health crisis may make things even more difficult.

ALPHONCE SHIUNDU
is a journalist, editor and fact-checker in Kenya.

Twitter: @Shiundu

Masses of untaxed people

About 80 % of Kenya's labour force work in the informal sector. Micro, small and medium-scale enterprises tend to be poorly regulated and often operate beyond the tax agency's radar.

As payments are mostly made in cash, business records are poor and many entities are not registered. Undocumented transactions, however, often prove impossible to tax. At the same time the people concerned typically do not benefit from government-sponsored social protection or any kind of private insurance coverage. Livelihoods in the informal sector are mostly precarious. Things are similar in many developing countries, especially in Africa and South Asia.

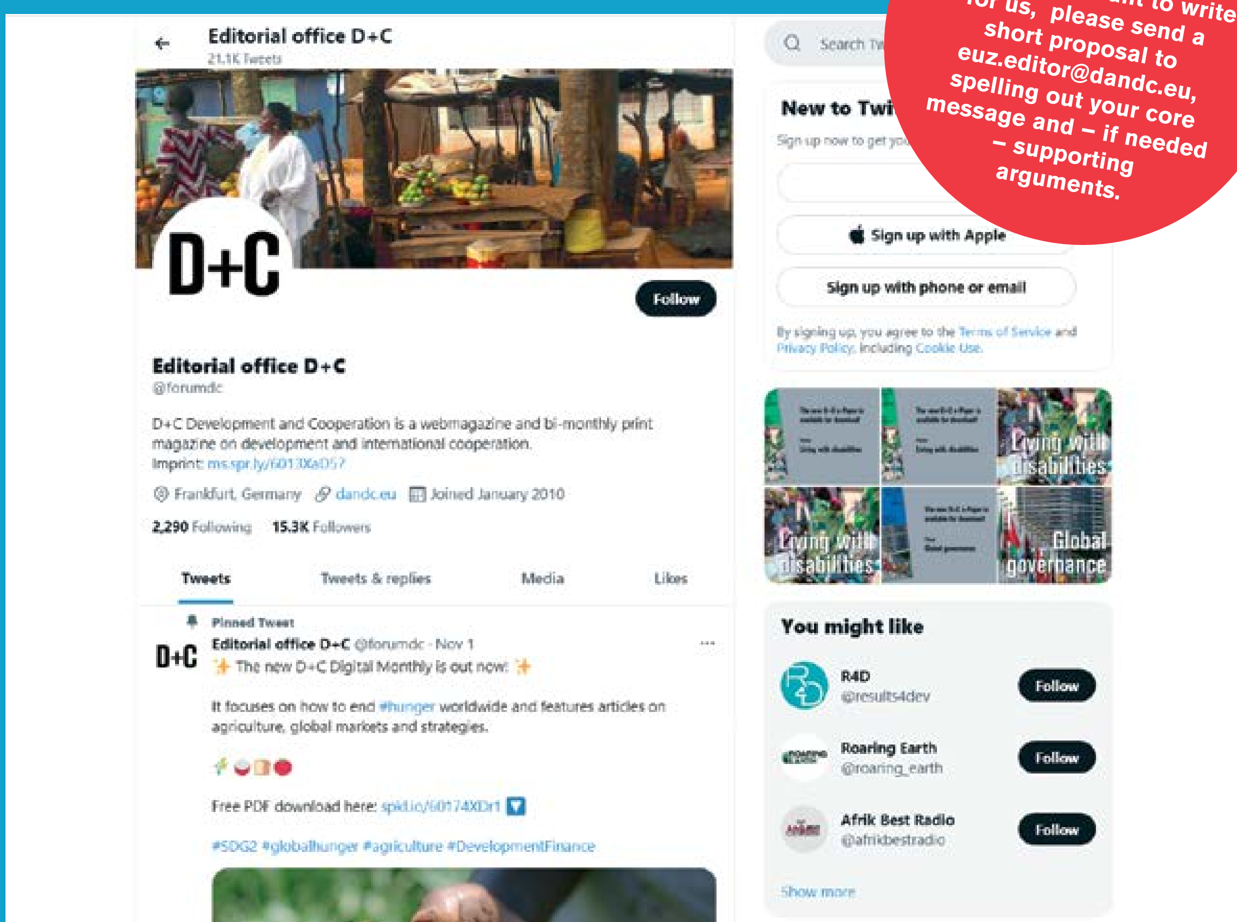
As informal workers' incomes are unpredictable, their families live hand to mouth. One implication is that attempts to enforce tax legislation across the entire informal sector is likely to cost more money than actually bypasses tax collection. To actually improve government revenues, as Kenya's government intends to do (see main story), the challenge is thus to include those people in the system who can afford to pay without unduly burdening those who cannot.

According to Kenyan law, all adults must register with the tax agency and obtain a personal identification number. However, people who do not rely on the financial-service industry never need that identification number in their daily lives, so many remain unregistered.

So far, there are only 6 million registered taxpayers, of whom 3 million enjoy formal employment and another 3 million work in the informal sector. An estimated 15 million informal workers, however, are not covered.

The tax authority intends to recruit 2 million more taxpayers in the next two years. Ruto's plan is to set up a special fund to give low-interest loans to the bottom-of-the-pyramid "hustlers", such as street vendors, handcart pushers or boda boda operators (passenger-carrying motorcyclists). To access the new government fund, these persons will need a bank account, and to get one, they will have to register as taxpayers. Ultimately, value-added and income taxes can be collected as they do business to service their government loans.

This approach is smart and growth-oriented. It aims to boost an informal business to make it strong enough to pay taxes before actually charging taxes. At the same time, it makes the tax base broader and more promising in the long run. AS



Editorial office D+C
21.1K Tweets
D+C
Follow
Editorial office D+C
@forumdc
D+C Development and Cooperation is a webmagazine and bi-monthly print magazine on development and international cooperation.
Frankfurt, Germany
dandc.eu
Joined January 2010
2,290 Following
15.3K Followers
Tweets
Tweets & replies
Media
Likes
Pinned Tweet
Editorial office D+C @forumdc · Nov 1
The new D+C Digital Monthly is out now!
It focuses on how to end #hunger worldwide and features articles on agriculture, global markets and strategies.
Free PDF download here:
#SDG2 #globalhunger #agriculture #DevelopmentFinance
New to Twi
Sign up with Apple
Sign up with phone or email
Living with disabilities
Global governance
You might like
R4D
@results4dev
Roaring Earth
@roaring_earth
Afrik Best Radio
@afrikbestradio
Show more