

# KAS INTERNATIONAL REPORTS

DEVELOPMENT, SOCIAL SECURITY  
AND SUSTAINABLE ECONOMICS

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## EDITORIAL

Dear Readers,

Extraordinary stresses such as the ongoing global financial and economic crisis put the relationship between society and state to the test. People, for their part, expect politicians to take measures to mitigate negative impact and to deal with the costs to society appropriately. Moreover, people want to be able to rely on a social network and on societal solidarity during a period of individual need. The state, for its part, expects its citizens to make a contribution to overcoming any crisis affecting them. Whether these mutual expectations can be fulfilled successfully depends crucially on the social and economic foundation of the particular country. In Germany, the structures in both these areas are well-developed, and public and private social security expenditure accounts for over a quarter of GDP. It is particularly noteworthy that a large range of social security instruments does exist, covering risks such as unemployment, illness or care needs as well as support for families and pensioners.

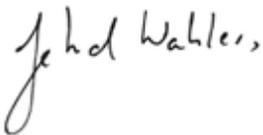
This high level of social security requires a strong economic performance and an ethos as defined by the Social Market Economy. One further significant component of an effective welfare state is the extent of its foreign trade engagement. As Matthias Bauer emphasises, small and medium enterprises (SME) are of particular significance in this respect. They create jobs, further innovation and engage in social matters. Thus, Bauer advocates in his article for a stronger participation of the German *Mittelstand* in development cooperation activities by pointing out the benefits to the SME sector in the partner countries. There, “a solid *Mittelstand* can help to foster economic and social development and to stabilise democratic structures at a political level – in line with the goal of a sustained impact of development policy instruments”.

The availability and quality of social security varies from country to country. In this issue, Paul Linnarz explains with a special focus on Asia that many developing and newly industrialised countries are only beginning to develop welfare systems. At the same time, increasing numbers of

people in Asia are longing for state benefits, as the author shows with reference to a survey by the Eden Strategy Institute from March 2014. Respondents in India, Indonesia, the Philippines and Vietnam were above all concerned about illness and unemployment. In such events, they can hardly count on any public welfare measures. Even members of the middle class are at risk of falling back into a state of poverty should their private means be insufficient to overcome the emergency situation. Linnarz points out ways in which governments in Asia can successfully combine social security and economic development.

Many countries in Sub-Saharan Africa are far from ready to engage in considerations of this type, as Bernd Althusmann, Angelika Klein and Stefan Reith write in this issue. In their analysis of development, social security and sustainable economic activity, the authors focus on Angola, Namibia, Uganda and Tanzania. These states have huge deposits of oil, diamonds, gold or uranium at their disposal. "The discussion on how abundant mineral resources can contribute to sustainable development is in full swing not only in international development cooperation but also in the partner countries." This debate must produce differentiated conclusions, as governments, (transnational) extraction companies and the local populations in the extraction areas have diverging interests, the authors explain.

Social security affects countries in terms of their political, constitutional and economic development. Revealing the underlying connections is an important component of the programs of the Konrad-Adenauer-Stiftung. The essential task is to place people at the center. Countries in Europe, Africa and Asia are dealing with social security in different ways, also because the challenges differ. Together, we can learn from our experiences.



Dr. Gerhard Wahlers  
Deputy Secretary General



Dr. Matthias Bauer is Coordinator for International Economic Policy at the Konrad-Adenauer-Stiftung.

## DEVELOPMENT PARTNERSHIPS

### SIGNIFICANCE OF THE *MITTELSTAND* FOR SUSTAINABLE DEVELOPMENT

*Matthias Bauer*

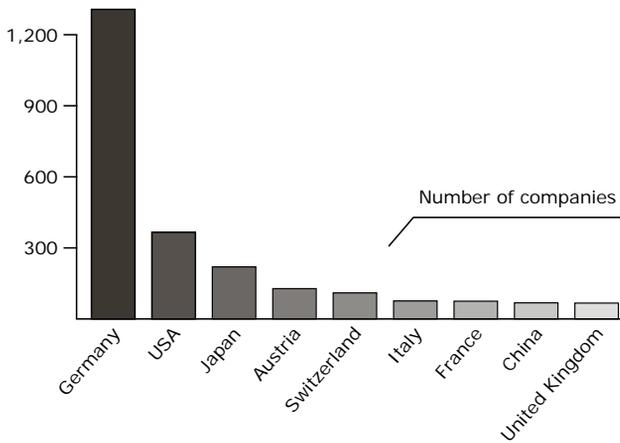
Today, the Federal Republic of Germany is not only one of the economically strongest nations worldwide. It is also a cosmopolitan country where civil society is thriving. Most people in Germany have achieved a level of education that grants them access to positions in the job market that not only allow them to earn a basic living; rather, the financial basis for making individual life choices. The German social security system is intact – particularly in comparison with other OECD countries. In addition, ecological sustainability is no longer just a theoretical concept, but is increasingly a characteristic feature of the German economy and its innovation activities.

One of the factors related to this positive development is Germany's economic policy. Chancellor Konrad Adenauer and his Minister of Economic Affairs Ludwig Erhard built the foundations for the Social Market Economy with a number of laws in the post-war years. This course has been held ever since and can be summarised as pursuing an economic policy that complements individual freedom in the market with social security. However, the best economic policy is of little use if there is a lack of initiative in the private sector. Today, the backbone of the German economy comprises a wide spectrum of companies, including some with traditions going back centuries, others established in the post-war era, as well as more recent innovative start-ups. One can definitely say there has never been a lack of entrepreneurship and entrepreneurial spirit in Germany.

The German *Mittelstand*, i.e. the sector comprising family run or owned businesses, not necessarily small or medium, is an undisputed mainstay of the success story that is the Social Market Economy. Although the definition of the *Mittelstand*<sup>1</sup> is not entirely clear-cut in Germany due to the heterogeneous corporate landscape, the term “German *Mittelstand*” occurs more and more frequently as a seal of quality in international discourse in addition to “made in Germany” and Germany’s Social Market Economy. Today, the *Mittelstand* accounts for over 15 million jobs subject to social insurance and offers great innovation potential. It is in part strongly integrated into global trade (see fig. 1) and generates over half of the annual added value of the German economy.

Fig. 1

**Hidden global market leaders from the German *Mittelstand* (as of 2012)**



Own presentation. Source: BMWi, n. 2.

Most companies which comprise the *Mittelstand* are family or owner managed and are characterised by long-term business policies as well as a strong sense of responsibility towards society.<sup>2</sup> Four out of five apprentices obtain their

1 | In Germany, small and medium enterprises (SME) with up to 500 employees and an annual turnover of up to 500 million euros are counted among the *Mittelstand*.

2 | Cf. Federal Ministry of Economics and Technology (BMWi), “German *Mittelstand*: Motor der Deutschen Wirtschaft. Zahlen und Fakten zu mittelständischen Unternehmen”, Jul 2013, <http://bmwi.de/DE/Mediathek/publikationen,did=506316> (accessed 25 Jun 2014).

qualifications in this type of company. Many members of the *Mittelstand* have had strong bonds with their home region and their home country for generations, are involved in associations, and act as sponsors for a great variety of interests. The *Mittelstand* is therefore an integral part of economic, social and political life in Germany, “without it the glue holding our society together would disintegrate”.<sup>3</sup>

## DEVELOPMENT COOPERATION FOCUS ON PRIVATE-SECTOR INITIATIVE

**In many developing countries, development activities have not succeeded in fostering good governance and thereby creating a business environment that encourages entrepreneurial initiatives.**

In many developing and newly industrialised countries, a solid *Mittelstand* can help to foster economic and social development and to stabilise democratic structures at a political level – in line with the goal of a sustained impact of development policy instruments. However, in many countries, development activities have not succeeded in fostering good governance and thereby creating a business environment that encourages entrepreneurial initiatives and start-ups, which in turn enhance sustainable economic development. In the area of development cooperation (DC), the technical term “sustainability” has been an internationally accepted guiding principle for over 20 years. There is a general consensus development – notwithstanding the multifaceted nature of what development represents – should be conducted in an efficient, socially equitable and ecologically sustainable manner.<sup>4</sup>

Although DC actors around the world agree on these sustainability guidelines and although these principles have become incorporated into governments’ developmental concepts, numerous failures in the partner countries have elicited criticism of traditional development practices. The accusations relate to the pressure to spend money on the part of the donor countries and their implementing organisations as well as the conditions imposed on the provision

3 | Bund Katholischer Unternehmer, “Für eine neue Finanzierungskultur im deutschen Mittelstand”, *Diskussionsbeiträge*, Mar 2005, [http://bku.de/download?dokument=1&file=72\\_fuer\\_eine\\_neue\\_finanzierungskultur\\_im\\_deutschen\\_mittelstand.pdf](http://bku.de/download?dokument=1&file=72_fuer_eine_neue_finanzierungskultur_im_deutschen_mittelstand.pdf) (accessed 25 Jun 2014).

4 | Cf. Federal Ministry for Economic Cooperation and Development (BMZ), “Lexikon der Entwicklungspolitik. Nachhaltigkeit (nachhaltige Entwicklung)”, [http://bmz.de/de/service/glossar/N/nachhaltige\\_entwicklung.html](http://bmz.de/de/service/glossar/N/nachhaltige_entwicklung.html) (accessed 12 Jun 2014).

of funds to the governments of the recipient countries in the form of budget support, for instance. There is also a question as to the capability of recipient countries to absorb the funds due to inadequate human resources and institutional capacities as well as deficiencies in the rule of law. It is precisely these types of issues that have induced politicians in recent years to subject classic approaches to development cooperation to critical examination.

After a long period during which entrepreneurship and the *Mittelstand* did not carry much weight in the development agenda, many actors in international DC seem to have realised the importance of private-sector initiative and entrepreneurship for sustainable development. As far back as 2000, almost 50 OECD and non-OECD countries adopted the “Bologna Charter on SME Policies”. In this charter, governments emphasise the significance of small and medium enterprises (SME) for the fight against poverty, for technological change and social progress. Its central recommendations, therefore, aim at fostering and improving the business environment, in which companies can be established, grow and expand. This entails the creation of stable macroeconomic conditions, the removal of administrative obstacles for SMEs, the fostering and embedding of entrepreneurial thinking in society as well as financial support for SMEs.<sup>5</sup> Many of these recommendations have found their way into international development cooperation circles. Development instruments aim at fostering the founding of new companies and subsidiaries in the partner countries as well as improved financing options (e.g. easy access to microcredits) and opportunities for people to better themselves by obtaining occupational qualifications and undergoing further training. In addition, examples of the best practice are identified in large-scale studies to facilitate knowledge transfer as well as the adaptation of the various development support practices to match local requirements.<sup>6</sup>

**The “Bologna Charter on SME Policies” emphasises the significance of small and medium enterprises for the fight against poverty, for technological change and social progress.**

5 | Cf. Organisation for Economic Co-operation and Development (OECD), “Declaration: The Bologna Charter on SME Policies”, 15 Jun 2000, <http://acts.oecd.org/Instruments/ShowInstrumentView.aspx?InstrumentID=153> (accessed 11 Jun 2014).

6 | Cf. OECD, “LEED Programme (Local Economic and Employment Development)”, <http://www.oecd.org/cfe/leed/projects/2013-14.htm> (accessed 12 Jun 2014).

**The European Commission collaborates closely with the partner countries in jointly developing the private sector. During the past ten years, Brussels has provided some 350 million euros per year.**

Germany and the European Union are also committed to fostering the private sector in developing and newly industrialised countries. The European Commission collaborates closely with partner countries in jointly drafting policy recommendations for the development of the private sector and in jointly implementing programs. During the past ten years, Brussels has provided some 350 million euros per year for SME development measures. In that respect, the European Union has focused particularly on the development and provision of innovative financing instruments as well as business-specific energy-efficiency projects.<sup>7</sup>

As regards German development cooperation, the federal government of Christian Democrats, Christian Socialists and Liberals implemented numerous reforms during the last legislative period (2009 to 2013) aimed at increasing the effectiveness of German development policy. Under the then Federal Minister for Economic Cooperation and Development, Dirk Niebel (FDP), the backlog of reforms identified in this policy area brought forth a number of institutional and structural innovations. Besides organisational changes, cooperation with civil society, with political foundations, with the Catholic and Protestant Churches, and particularly with the business world was also expanded in terms of content.<sup>8</sup> The former Federal Minister responded to the statement in the coalition agreement between the CDU, CSU and FDP that “the sustained fight against poverty and structural deficiencies” would require “closer co-operation with the private economy in Germany”.<sup>9</sup>

7 | Cf. European Commission, “A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, 13 May 2014, [http://ec.europa.eu/europeaid/what/economic-support/private-sector/documents/psd-communication-2014\\_en.pdf](http://ec.europa.eu/europeaid/what/economic-support/private-sector/documents/psd-communication-2014_en.pdf) (accessed 26 Jun 2014).

8 | BMZ, “Gute OECD-Zahlen für Niebels Entwicklungszusammenarbeit”, 11 Jan 2013, <http://bmz.de/20130111-1> (accessed 12 Jun 2014).

9 | Federal Ministry of the Interior, “Wachstum. Bildung. Zusammenhalt. Koalitionsvertrag zwischen CDU, CSU und FDP. 17. Legislaturperiode”, 28 Oct 2009, <http://bmi.bund.de/SharedDocs/Downloads/DE/Ministerium/koalitionsvertrag.pdf> (accessed 26 Jun 2014).

While making reference to the knowledge and expertise of German companies, Niebel emphasised several times that German development policy had to be integrated more closely with foreign economic policy.<sup>10</sup>



Regarding the SME sector in partner countries, the Commission of the EU, here the Commissioner in charge Andris Piebalgs at a conference in Burundi in 2012, provided 3.5 billion euros for the past ten years. | Source: Jean-Marc Ferré, VN, flickr ©④③③.

The BMZ's new course elicited a varied reaction. Non-governmental organisations, for their part, voiced fears that the ministry would gear its activities more towards defending Germany's foreign trade interests and thereby become an instrument for fostering foreign trade.<sup>11</sup> Representatives of the German Green Party (Bündnis90/Die Grünen), for their part, accused the minister of acting not "as the champion of the poor" but as an "instrument of German business".<sup>12</sup> The German business community, on the other hand, welcomed the change in policy and pointed out the

10 | Jule Reimer, "Die Revolution steht noch aus. Bundestagswahl 2013: Vier Jahre Entwicklungspolitik unter Dirk Niebel", *Deutschlandfunk*, 17 Jul 2013, [http://deutschlandfunk.de/d.724.de.html?dram:article\\_id=254354](http://deutschlandfunk.de/d.724.de.html?dram:article_id=254354) (accessed 12 Jun 2014).

11 | Cf. interview with Claudia Warning: Elvira Treffinger, "Wir erwarten, dass sich Niebel zu Armutsbekämpfung bekennt", 1 Nov 2009, <http://evangelisch.de/themen/politik/wir-erwarten-dass-sich-niebel-zu-armutsbekaempfung-bekannt-5933> (accessed 13 Jun 2014).

12 | Bündnis90/Die Grünen, "Minister Niebel – Egotrip statt Brückenbauer", 19 Apr 2013, <http://gruene.de/presse/minister-niebel-egotrip-statt-brueckenbauer.html> (accessed 13 Jun 2014).

benefits to both sides that could result from strengthened cooperation between actors from business and civil society in the donor and partner countries. “Any criticism of the new course is uncalled-for. A business-friendly development aid policy is beneficial to both developing countries and jobs in Germany”,<sup>13</sup> remarked The Federation of German Industries (BDI) on the matter.



Referring to the knowledge and expertise of German companies, former Federal Minister Dirk Niebel, here at the Media Award of the German Development Policy in 2013, emphasised the significance of foreign economic policy. | Source: Thomas Ecke, Deutsche Welle ©.

The BMZ's activities to strengthen the role of the private sector currently focus on microbusinesses and SMEs, as they make up the majority of the private sector in the partner countries. There are also those in the ministry who say these are precisely the types of businesses that will open up employment and as a result earning opportunities for the poorer sectors of the population.<sup>14</sup> An interim evaluation by the OECD from 2010 included a positive assessment of the BMZ reforms, particularly the increased focus on the private sector. In the same context, a recommendation was

13 | BDI, “Chancen in der Entwicklungszusammenarbeit”, 13 Jan 2010, [http://bdi.eu/Wirtschaftskooperation\\_Chancen-fuer-die-deutsche-Wirtschaft-in-der-Entwicklungszusammenarbeit.htm](http://bdi.eu/Wirtschaftskooperation_Chancen-fuer-die-deutsche-Wirtschaft-in-der-Entwicklungszusammenarbeit.htm) (accessed 13 Jun 2014).

14 | Cf. BMZ, “Wirtschaft, Wachstum und Beschäftigung. Förderung der Privatwirtschaft”, [http://bmz.de/de/was\\_wir\\_machen/themen/wirtschaft/nachhaltige\\_wirtschaftsentwicklung/privatwirtschaftsfoerderung](http://bmz.de/de/was_wir_machen/themen/wirtschaft/nachhaltige_wirtschaftsentwicklung/privatwirtschaftsfoerderung) (accessed 12 Jun 2014).

put forward for the support programs for the private sector to be expanded.<sup>15</sup>

## DEVELOPMENT POLICY IS FACING CHALLENGES DUE TO WIDESPREAD PREJUDICE

While the people involved in development policy have realised that private-sector initiative and particularly SMEs generate economic growth and sustainable employment through investments, thereby laying the foundations for development in a wider sense, terms such as entrepreneurship and the market economy are still regularly met with suspicion. It is an unspoken fact that many established DC actors take a critical stance vis-à-vis the role of private-sector initiatives in particular and therefore of the role of the *Mittelstand*. Consequently, “cooperation with the private sector” has tended to be neglected by comparison with other development instruments in the past.

**Many established DC actors take a critical stance regarding the role of private-sector initiatives in particular and therefore of the role of the *Mittelstand*.**

Undoubtedly, there are reasons why private-sector initiatives are accorded relatively little attention in development cooperation. The idea of the market as a means of salvation for developing countries is viewed with scepticism partly because there is no shortage of negative examples for critics to cite. Catchphrases such as food speculation, land grabbing, degrading and exploitative working conditions and starvation wages – not only in the textile industry – and above all corruption are bandied about with ample justification. The combination of poor governance and private-sector interests fuels corruption. Elites are exploiting the situation to enrich themselves, thereby demonstrating their power, and this strongly hinders or even prevents development in other areas.<sup>16</sup> These problems cannot be denied, which is why the advocates of greater marketisation and more entrepreneurship are regularly facing these and other accusations. Their critics

15 | Cf. BMZ, “OECD-Empfehlungen geben Niebel Rückenwind für Reformen”, 27 Oct 2010, <http://bmz.de/20101027-1> (accessed 12 Jun 2014).

16 | Cf. The Advisory Board for Irish Aid, “Good governance, aid modalities and poverty reduction. From better theory to better practice”, Feb 2008, <http://odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2265.pdf> (accessed 25 Jun 2014).

have developed a simplistic reasoning according to which it is private-sector interests that are undermining efforts to reduce poverty and hunger, to create sustainable education and job opportunities as well as democratic participation

**Critics of the business sector have been and still are intentionally keeping quiet about the fact that the activities of private companies have significantly contributed to development.**

opportunities and a stake in society. Examples of this are also regularly and frequently mentioned in the domestic political debate in Germany, fuelling the controversy.<sup>17</sup> Critics of the business sector have been and still are intentionally keeping quiet about the fact that the activities of private companies have significantly contributed to development, as well as to halve global poverty since 1990 – the key Millennium Development Goal until 2015 – and that particularly in developing countries economic growth is only possible on the basis of strong private-sector activities fostered by local and foreign support.

#### **ENHANCEMENT OF THE DEVELOPMENT TOOLBOX**

However, the development debate has also shown that private-sector initiative must not be relegated to a subordinate role in development cooperation. The political decision-makers have concluded a healthy and agile private sector is an essential prerequisite for overcoming poverty and hunger in the long-term and that it is essential for helping developing countries to close the gap to developed and industrialised countries. In other words: when sensible regulatory systems complement markets, when human rights, democracy and the rule of law are upheld, entrepreneurial initiative advances economic convergence. To what extent the course set by the then Federal Minister Niebel will be maintained is up for speculation at this point in time. Although the coalition agreement between CDU, CSU and SPD makes explicit mention of the development of a socially and ecologically compatible market economy, good governance and participation by civil society as objectives of German development policy, it does not spell out the significance of entrepreneurship or the

17 | Cf. Heike Hänsel, "Herr Niebel, Sie sind ein Verhinderungsminister", Bundestag speech, Fraktion DIE LINKE. im Bundestag, 26 Apr 2013, <http://linksfraktion.de/reden/herr-niebel-sind-verhinderungsminister> (accessed 13 Jun 2014).

role of the German private sector in concrete terms.<sup>18</sup> In his first speech before the German Bundestag, the incumbent Federal Minister for Development, Dr. Gerd Müller

**Federal Minister for Development, Dr. Gerd Müller, stressed Germany had to pursue a “value-oriented development policy”.**

(CSU), stressed Germany had to pursue a “value-oriented development policy”, with development serving the people and not exclusively “the markets and the economy”. The Minister further pointed out that “the free market without any control is not our vision”, that the “term growth needs to be redefined” and that it would be necessary in future to produce “more with less”.<sup>19</sup> Whether the role of the private sector in German development politics will be strengthened further and what shape a new, value-based development policy will take in this context in the future work of the BMZ remains to be seen. These two objectives are not mutually exclusive. After all, the German *Mittelstand* in particular stands for value-based entrepreneurship. Consequently, strengthening the private sector in development activities would, in principle, also be in the interest of German development politics in the future.

Future work can build on the achievements of past initiatives to involve the private sector more strongly in development cooperation. In the BMZ support programs, the German *Mittelstand* has been involved in various cooperation modalities since the end of the 1990s. Development partnerships play an important role in this context, i.e. “cooperation projects between actors from the public sector, the private sector and civil society, where the involved organisations work together as equal partners with the purpose of achieving the common goal of sustainable development”.<sup>20</sup> The aim of these partnerships is not merely to mobilise private capital more effectively but above all to increase efficiency in the utilisation of public funds. In addition, the

18 | CDU, “Deutschlands Zukunft gestalten. Koalitionsvertrag zwischen CDU, CSU und SPD. 18. Legislaturperiode”, 27 Nov 2013, <http://www.cdu.de/sites/default/files/media/dokumente/koalitionsvertrag.pdf> (accessed 13 Jun 2014).

19 | BMZ, “Gerd Müller im Parlament: Erste Rede als Bundesminister”, 29 Jan 2014, <http://bmz.de/20140129-2> (accessed 12 Jun 2014).

20 | BMZ, *Kooperation mit dem Privatsektor im Kontext der Entwicklungszusammenarbeit – Kooperationsformen. Ein Positionspapier des BMZ*, 31 Mar 2011, [http://bmz.de/de/mediathek/publikationen/reihen/strategiepapiere/Strategiepapier304\\_05\\_2011.pdf](http://bmz.de/de/mediathek/publikationen/reihen/strategiepapiere/Strategiepapier304_05_2011.pdf) (accessed 18 Jun 2014).

**Investments in the developing countries will create local jobs and provide important impulses to sustainable know-how and technology transfer.**

idea is to enable the German *Mittelstand* to further expand its business activities around the world. Consequently, the impact of German development cooperation will be strengthened to the benefit of both sides. Investments in the developing countries will create local jobs and provide important impulses to sustainable know-how and technology transfer. Furthermore, the upskilling of employees will help to create educational and job opportunities for the future. This is important because it is impossible or very difficult for (semi-)public implementing organisations on their own to ensure the provision of opportunities for employees to engage in training or obtain qualifications and to teach modern management methods.

The BMZ differentiates between two forms of cooperation where development partnerships are concerned: firstly, projects implemented by businesses in conjunction with DC implementing organisations and secondly, projects implemented jointly by businesses and public DC partners. In each case, the economic interest must be in line with the public, development interest and, not least, satisfy sustainability objectives. *develoPPP* is a program under which the BMZ has supported numerous development partnerships since 1999. With this program, the ministry offers support to companies that wish to become involved in developing and newly industrialised countries. The three public partners that implement *develoPPP* projects on behalf of the BMZ are the German Investment and Development Corporation (DEG), the German Federal Enterprise for International Cooperation (GIZ) and *sequa gGmbH*. Since the beginning of the program, over 1,500 development partnerships have been conducted in collaboration with German and European businesses.<sup>21</sup> The financial volume involved in *develoPPP* is comparatively small and therefore more suited to small and medium businesses with a modest investment requirement. To be eligible for support, a company must bear at least half of the total project costs, with the ministry contribution capped at 200,000 euros. Most of the supported projects involve investments in the agricultural, energy, environmental and occupational training sectors.

21 | Cf. GIZ and BMZ, "develoPPP – Das Programm", <http://developp.de/de/content/das-programm> (accessed 18 Jun 2014).  
DR © 2014, Konrad Adenauer Stiftung e. V.



In the Indian textile industry, German enterprises collaborate with colleges in order to develop training programs for qualifications in logistics and materials management. | Source: Jessica Steiner, Fabrics For Freedom, flickr ©📷

### **Entrepreneurial Engagement Delivers Pioneering Development Work**

The supported projects are quite varied. One of them involved providing counsel and financial support to a German textile manufacturer that employs 400 people in the federal state of Tamil Nadu in southern India. In collaboration with sequa and two Indian colleges, the manufacturer devised a training program for qualifications in logistics and materials management with the aim of guaranteeing productivity, quality and delivery processes. The training benefits not only the company's own workforce but also employees from other companies in Tamil Nadu. The cooperation partners work together in developing the curricula and in training Indian teaching staff. The trainees are offered work placements to give them the opportunity to demonstrate what they have learnt in practice.<sup>22</sup>

Another example is a project on Zanzibar. The islanders have to import most of their drinking water from the Tanzanian mainland, a laborious and costly affair. A German company recognised this shortage situation and, in collaboration with GIZ, developed and built a desalination facility that runs on wind and solar power to produce drinking water by filtering seawater. GIZ has already been working

22 | Cf. GIZ and BMZ, "Referenzen. Mit Ausbildung stark im internationalen Wettbewerb", <http://developp.de/de/content/mit-ausbildung-stark-im-internationalen-wettbewerb> (accessed 19 Jun 2014).

**A first desalination plant was set up near Zanzibar City, and the partnership collaborated with the local authority to devise a sustainable model for the plant's operation.**

with this company in a development partnership since 2011 to adapt the technology to local requirements. A first desalination plant was set up near Zanzibar City, and the

partnership collaborated with the local authority to devise a sustainable model for the plant's operation. This facility currently supplies some 600 local people. Particularly poorer households now benefit from cheaper drinking water. It is also a sustainable business model. The plant will have paid for itself within four years,<sup>23</sup> quite apart from the positive side effects in areas such as health, for instance.

In the Indian city of Pune, a German family company has done some pioneering work in industrial environmental protection. Operating in an environmental network involving five other companies, efforts were made to lower greenhouse gas emissions as well as water and energy consumption at the businesses. The involved companies were first sensitised to the responsible ways of dealing with waste, wastewater and hazardous substances. The environmental awareness of the employees was strengthened through training sessions and consultancy services. In collaboration with the companies, environment management plans were drawn up to embed the know-how in the involved companies for the long term.<sup>24</sup> This entailed behavioural changes among the employees and led to noticeable cost reductions in the companies. The project was partly financed by DEG under a development partnership. The involvement of DEG also made it possible to include further companies in the network, which extended the overall impact of the project within the region.

In Colombia, a Franconian company collaborated with the national training organisation Servicio Nacional de Aprendizaje (SENA) in developing a photovoltaics competence center, where local trade specialists can obtain further training. Under a development partnership with sequa, two photovoltaic plants were constructed, an on-grid plant in Bogotá and an off-grid plant in Puerto Carreño. The local

23 | Cf. GIZ and BMZ, "Wind und Sonne für sauberes Trinkwasser", <http://developp.de/de/content/wind-und-sonne-für-sauberes-trinkwasser> (accessed 19 Jun 2014).

24 | Cf. BMZ, "Industrieller Umweltschutz im Netzwerk", <http://developp.de/de/content/industrieller-umweltschutz-im-netzwerk> (accessed 19 Jun 2014).

partners use these plants for teaching and research purposes as well as for the training of multipliers and trade specialists. The work with multipliers, in particular, will take practical know-how into universities and companies. This will also help to encourage the dissemination of renewable energies, particularly solar power, in Columbia.<sup>25</sup>

## **POTENTIAL FOR FURTHER DEVELOPMENT PARTNERSHIPS WITH THE GERMAN *MITTELSTAND***

All these projects show that by focusing on fostering private sector initiative, German development cooperation is bringing entrepreneurial expertise and capital into the partner countries. Not only does this demonstrably help to improve people's living conditions in these countries, it also encourages the establishment of local companies that will create sustainable, long-term jobs and provide their employees with opportunities to undergo training and gain qualifications, which will enable them to earn a stable income and thus make a living. In addition, valuable organisational and technical expertise is being conveyed, and sustainable technologies can be applied where they are urgently needed. The high working, environmental and social standards, which German companies represent, can have an impact in the partner countries and help to produce a gradual raising of local statutory minimum standards, which tend to be lower. By consciously demonstrating a strong sense of responsibility towards society in their business dealings in developing and newly industrialised countries, members of the German *Mittelstand* can act as role models and help make globalisation more equitable.

On 26 June 2013, the German federal government adopted the government draft of the 2014 budget. According to this draft, BMZ expenditure is to amount to just under 6.3 billion euros in 2014. There are just under 80 million euros earmarked for development partnerships based mainly on cooperation with the German *Mittelstand*. That corresponds to 1.3 per cent of the total BMZ budget. While cooperation with the private sector is also being fostered through measures funded under other budget headings,

25 | Cf. Sequa, "Kolumbien: Nachhaltiger Technologietransfer im Bereich Photovoltaik", <http://sequa.de/index.php?view=article&id=1235> (accessed 19 Jun 2014).

this figure speaks for itself: development partnerships with *Mittelstand* businesses are distinctly underrepresented.<sup>26</sup>

The numerous benefits resulting from an intensification of the collaboration between development politics and the SME sector are obvious and can hardly be denied even by those critical of private sector initiative in developing countries. To what extent the role of the SME sector will be considered in German development policy in the future and which importance it will be accorded besides other development instruments and programs remains to be seen. The fact is that with its quality awareness and its commitment to social issues, the SME sector has an impact on development activities not only at home but also far beyond. This potential needs to be developed further.

26 | Cf. Venro, "Regierungsentwurf über den Haushalt 2014", 28 Jun 2013, [http://venro.org/uploads/tx\\_igpublikationen/2013\\_Kurzinformation\\_Haushalt\\_2014.pdf](http://venro.org/uploads/tx_igpublikationen/2013_Kurzinformation_Haushalt_2014.pdf) (accessed 19 Jun 2014).  
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# DEVELOPMENT AND SOCIAL SECURITY IN ASIA

*Paul Linnarz*

Europe is facing the question as to how it will be able to financially secure its rapidly ageing societies without future governments going further into debt. Asian countries, including Japan, South Korea, Singapore and China, are facing the same problem. However, unlike in Europe, many Asian countries are currently discussing expanding their social systems as this is considered a necessary condition for sustainable development in the region. The term “social security” refers to social protection systems, including social insurance, social assistance and national financial security funds. Therefore, the issue concerns policies and regulations that financially protect individuals against risks, such as unemployment, illness and disability, as well as childcare and old-age pensions. Other aspects of social security relevant to emerging and developing Asian countries remain excluded from the discussion, among them criminality, pollution, violent protests and military conflicts.



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## THREE COMPONENTS OF DEVELOPMENT

Social security affects development in three ways: firstly, efficient and effective social protection systems may be considered an indicator of the development of the rule of law in a particular country. The United Nations states that a minimum level of social security is a human right.<sup>1</sup> The International Labour Organization (ILO) defined the requirements in 1952 in the “Social Security (Minimum Standards) Convention (No. 102)”. During the implementation process, an indication of the rule of law can be whether, for example, the amount of social security is clearly defined, which services individuals are entitled to in each case, who

1 | Articles 22 and 25 of the Universal Declaration of Human Rights (UN General Assembly, 1948)  
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is considered the beneficiary and whether the system in question is effectively protected against corruption. Countries such as Indonesia and the Philippines are still significantly weak in this area.

Secondly, social protection systems should be considered the prerequisite to and/or the result of democratic development. For example, in various Asian countries (South Korea, Indonesia, the Philippines, Taiwan) social security systems were significantly reformed and expanded in the years following democratisation. In a nutshell, after the fall of the authoritarian regimes, although all citizens suddenly had the right to participate in their country's political decision-making process, large portions of the electorate were initially excluded from enjoying the achievements of this development, especially state pension provisions, which were only partially guaranteed at the time. This significantly increased pressure for reform on the (now freely elected<sup>2</sup>) governments. However, there are numerous variations and limitations on this, which will be presented in greater detail in the course of this paper.

Thirdly, social security affects a country's development in terms of economics. This dimension cannot be taken separately from political development and the development of the rule of law. Furthermore, a country's resource security, gender equality and demographic development are highly intertwined. However, these and many other aspects can only be touched upon briefly here. Instead, this paper will focus on analysing the future of social security systems in Asia within the context of economic development using an increase in productivity and domestic consumption as an example. This raises questions about the prospects for a greater degree of "inclusive growth" in Asia.

### **GREATER QUALITY ALONG WITH QUANTITY**

"Inclusive growth" refers to a development strategy that does not solely seek the highest possible growth rates for the gross domestic product (GDP), rather it simultaneously makes provisions to fight poverty and social inequality. In

2 | Or rather "elected without manipulation" because "free elections" were already often held before democratisation (South Korea, Indonesia).

short, economic development is more a matter of sustainability and “quality over (or in addition to) quantity”.

The World Bank and the International Monetary Fund (IMF) increasingly turned their attention to this topic following the Asian financial crisis in the late 1990s. They called for additional efforts to be made for a greater degree of social security from the standpoint of minimising risks due to loss of income and increasing domestic consumption. The focus was on the question of how much effort the public purse must put into financing social security systems in Asia.<sup>3</sup> After the outbreak of the banking crisis in the U.S. (2008) and the debt crisis in Europe, the Asian Development Bank (ADB) revived the discussion by establishing the necessary framework for inclusive growth.<sup>4</sup> ADB regards social security systems also as a core aspect of future economic development in Asia. Furthermore, the ADB and the World Bank disagree on the criteria that should be used to measure the success of “inclusive growth” (e.g. poverty reduction, equality of opportunity).<sup>5</sup>

**The Asian Development Bank regards social security systems also as a core aspect of future economic development in Asia.**

Since the deliberations on more “inclusive growth” in Asia refer to very different economic systems and levels of development, the literature only rarely refers to individual Western models for comparison, including, for example, the social market economy in Germany. The example of South Korea with its “Meister high schools” (since 2010) is often compared with the dual system of vocational training in Germany.<sup>6</sup> The same applies to Thailand with its vocational schools similar to the German system. Additionally, the “German Mittelstand” can be counted among the success

- 3 | Cf. Robert Holzmann and Steen Jørgensen, “Social Risk Management: A New Conceptual Framework for Social Protection and Beyond”, World Bank, *Social Protection Discussion Paper*, No. 6, 2000.
- 4 | Cf. ADB, *Key Indicators for Asia and the Pacific 2011: Framework of Inclusive Growth Indicators, special supplement*, Mandaluyong City, 2011.
- 5 | Cf. Stephan Klasen, “Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals”, *ADB Sustainable Development Working Paper Series*, No. 12, Mandaluyong City, 2010.
- 6 | Cf. Hyun-Hoon Lee, Minsoo Lee and Donghyun Park, “Growth Policy and Inequality in Developing Asia: Lesson from Korea”, *ERIA Discussion Paper Series*, Economic Research Institute for ASEAN and East Asia, Jakarta, 2012.

stories for more “inclusive growth” in terms of small and medium enterprises (SMEs) in Asia.<sup>7</sup> Both its disproportionately high expenditure on research and development and its high degree of internationalisation are impressive. In the technology sector, many small and medium-sized German companies rank among the world leaders. In countries like China and South Korea, it is popular to refer to the “hidden champions” when discussing an increase in productivity.

### **A GOOD STARTING POINT AND COMPLEX CHALLENGES**

Of course, within the scope of this paper it will only be possible to discuss basic trends. The Asian economies are far too heterogeneous in terms of their development levels and structure to be exhaustively analysed here. The same is true of the degree of social protection in the various countries. The treatment of these topics is therefore greatly simplified in many instances. Moreover, this text cannot predict the extent to and the speed at which successful solutions can be transferred to other countries. That being said, the most important determining factors for the relationship between economic development and social security should first be outlined here:

#### **Dynamic but restrained economic growth**

Overall, Asia has significantly improved its economic performance over the past few decades. The region continues to serve as the “engine of the world economy”. However, the Asian economies’ past spectacular and sometimes double-digit growth rates have receded. After a 6.1 per cent growth rate in 2013, the ADB predicts a GDP growth of 6.2 per cent for the current year and 6.4 per cent in 2015.<sup>8</sup> The modest economic recovery in the USA, Europe and Japan is evidence of a moderate upward trend. These are important markets for Asian economies. However, within Asia, this trend is hampered by China. In 2014, growth

7 | Cf. Ganeshan Wignaraja and Yothin Jinjarak, “Is finance a binding constraint for SME participation in trade in Asia?”, Asia Pathways, 3 Jun 2014, <http://asiapathways-adbi.org/2014/06/is-finance-a-binding-constraint-for-sme-participation-in-trade-in-asia> (accessed 18 Jun 2014).

8 | Cf. ADB, *Asian development outlook 2014. Fiscal policy for inclusive growth*, Mandaluyong City, 2014, 3.

in the People’s Republic is expected to slow slightly to 7.5 per cent and then likely to 7.4 per cent in 2015. India, by contrast, seems to have exceeded its lowest point in economic development (2013: 3.2 per cent GDP growth in real terms) and has recorded a 4.7 per cent growth rate for the fourth quarter of 2013 compared to the previous year. For the current year,<sup>9</sup> growth is expected to exceed 5.5 per cent, and we can expect to see 6 per cent growth in 2015. However, just like China, the sub-continent’s growth rates remain significantly lower than the growth rates of previous years.

Table 1

**Annual growth rate of GDP per capita at purchasing power parity in selected Asian countries, 1991 to 2012 (in per cent)**

Land	91	92	93	94	95	96	97	2000	2003	2006	2009	2011	2012
China	7.7	12.8	12.7	11.8	9.7	8.9	8.2	7.5	9.3	12.1	8.7	8.8	7.3
India	-0.9	3.5	2.8	4.7	5.6	5.6	2.2	2.3	6.3	7.7	7.1	5.0	1.9
Indonesia	7.0	5.4	5.5	5.8	6.7	6.0	3.2	3.4	3.3	4.0	3.2	5.1	4.9
Japan	3.0	0.57	-0.08	0.52	1.6	2.3	1.3	2.1	1.5	1.7	-5.42	-0.86	2.1
Philippines	-3.0	-2.0	-0.2	2.0	2.3	3.5	2.9	2.2	2.9	3.4	-0.5	2.1	4.8
Vietnam	4.0	6.7	6.2	7.0	7.8	7.6	6.5	5.4	6.1	7.0	4.2	4.9	3.9
Thailand	7.4	7.2	7.5	8.2	8.3	4.9	-2.4	3.5	6.0	4.6	-2.5	-0.2	6.1

Source: ADB, Statistics and Databases, <http://adb.org/figi/2013/web/StatTrends.html> (accessed 25 Jun 2014).

**The growing middle class with rising purchasing power**

The economic growth over the past few decades has been accompanied by great progress in the fight against poverty (see table 2) and the establishment of a social middle class. By 2030, two-thirds of all people in the Asia-Pacific region will be considered to fall within the middle-income bracket according to the Organisation for Economic Co-operation

9 | The Indian fiscal year begins on 1 April and ends on 31 March of the following year.  
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and Development (OECD).<sup>10</sup> In 2009, this figure was 28 per cent. This represents an increase from 525 million (2009) to more than 3.2 billion people (2030). By 2030, the Asia-Pacific region will account for almost 60 per cent of the consumption of the global middle class. In 2009, this figure was only 23 per cent. Karras and Gertz (2010) calculated that in 2030 (according to purchasing power parity in U.S. dollars, 2005) India, China, Indonesia and Japan alone will account for nearly half of global consumption of all middle-income people.<sup>11</sup>

Table 2

**Proportion of population living below two U.S. dollars a day, 1990 to 2010 (in per cent)**

Land	1990	1993	1996	1999	2002	2005	2008	2010
China	84.6	78.6	65.1	61.4	51.2	36.9	29.8	26.8
India	n.a.	81.9	80.2	78.9	77.9	75.0	72.4	68.7
Indonesia	84.6	84.6	77.0	81.6	67.0	5.8	54.4	46.1
Japan	—	—	—	—	—	—	—	—
Philippines	54.9	53.8	47.3	45	44.4	44.4	42.2	41.5
Vietnam	90.1	85.7	81.0	75.6	68.7	52.9	43.4	39.0
Thailand	37.1	25.3	14.6	17.8	13.4	8.1	5.0	4.1

Source: ADB, Statistics and Databases, <http://adb.org/figi/2013/web/StatTrends.html> (accessed 25 Jun 2014).

### High income disparity remains

Nonetheless, the strengthening of the Asian middle class cannot hide the fact that many people are still living in the lower margins of these sections of the population. The

10 | Cf. Mario Pezzini, "An emerging middle class", *OECD Observer*, 2012, <http://oecdobserver.org/news/fullstory.php/aid/3681> (accessed 5 Jun 2014).

11 | Cf. Homi Kharas and Geoffrey Gertz, *The New Global Middle Class: A Cross-Over from West to East*, Wolfensohn Center for Development at Brookings, Washington, D.C., Brookings Institution Press, 2010, 6. Kharas and Gertz opted to use an absolute calculation approach in their comparison of countries to determine who counted in the "global middle class"; this approach included those with a daily purchasing power parity (PPP) from ten to 100 U.S. dollars.  
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“near poor” must make ends meet with an average of two to four U.S. dollars per day. According to the ILO, the proportion of the total number of employees they occupy in Southeast Asia alone has increased from 21.5 per cent in 2000 to 36 per cent today.<sup>12</sup> The increase in purchasing power in many places is primarily due to a larger consumer base because the proportion of the population of working age compared to the total population is increasing. This holds true for countries such as India, Indonesia and the Philippines. Not only does the large income disparity persist, but so does the informal sector share in the economy. A consequence of this is migration from rural areas to the city (China) or between countries (the Philippines, Bangladesh, Sri Lanka). In addition, large sections of the population still do not benefit from contributory social security due to their low income. Chun (2010) points out, given the high-income disparities, “it is the growth of consumers that have moved out of the middle class and into the upper class that will really drive consumption and will create a rebalancing of the global economy toward Asia.”<sup>13</sup>

**Large sections of the population still do not benefit from contributory social security due to their low income.**

## **CHINA: RAY OF HOPE AND RISK FACTOR**

To a varying extent, the development trends and challenges outlined above apply to all emerging Asian countries. However, China merits special attention because both the greatest risks and opportunities for economic development in Asia emanate from the People’s Republic.

In the first quarter of 2014, growth has once again cooled in both the manufacturing and investment sectors. Although the central government’s level of debt is officially approximately 20 per cent of gross domestic product,

12 | Cf. ILO, *Global Employment Trends 2014: Risk of a jobless recovery?*, Geneva, 2014, 57. The ILO distinguishes between “extremely poor” (less than 1.25 U.S. dollars per day in purchasing power parity, PPP), “moderately poor” (from 1.25 to two USD, PPP), “near poor” (from two to four USD, PPP), “developing middle class” (from four to 13 USD, PPP) and “developed middle class and above” (more than 13 USD, PPP).

13 | Natalie Chun, “Middle Class Size in the Past, Present, and Future: A Description of Trends in Asia”, *ADB Economics Working Paper Series*, No. 217, ADB, Mandaluyong City, 2010, 23.

if one includes the liabilities of local governments and municipalities, the level of debt amounts to approximately 45 per cent of GDP, and up to 70 per cent (or more) according to more pessimistic analyses.<sup>14</sup> Reliable figures on the total debt of the People's Republic are also unavailable because the credit growth over the past few years was fuelled by an opaque network of shadow banks. Moreover, in many places, investments were made in unproductive assets, and excess capacity was created.

### **Difficult adjustments of the economic model**

For the foreseeable future, state subsidies will remain an important driving force for economic growth in the People's Republic. For some transportation projects investment is now even being brought forward. However, it is not only the rising public sector debt that is increasingly worrying, but also that of Chinese businesses. Beijing, therefore, wants to rebalance its economic model. To reach the desired annual increase in gross domestic product of seven to eight per cent, the economy's dependence on state investments and exports should be relaxed, and private household consumption should be increased.



Construction of a skyscraper in China: Government grants and subsidies will remain an important driver of economic growth in the People's Republic. | Source: Tauno Töhk, flickr ©©.

14 | Cf. Yuanyan Sophia Zhang and Steven Barnett, "Fiscal Vulnerabilities and Risks from Local Government Finance in China", *IMF Working Paper*, WP/14/4, 2014, 9.  
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This realignment is facing significantly more difficult conditions than in the previous periods of development in Japan and the “tiger economies” in the Far East. Gross domestic product per capita (in real terms by purchasing power parity) in the People’s Republic today approximately corresponds to that of Japan in the early 1970s, Taiwan in the early 1980s and South Korea in the late 1980s. In other words, China’s economic output per capita is an average of three decades behind that of its neighbours. In Japan, South Korea and Taiwan, investment during the early stages of their economic development accounted for a maximum of approximately 35 per cent of gross domestic product. This exceeded investment in the Western industrial nations but is significantly less than China’s current investments, which account for about 50 per cent. In the neighbouring countries of the People’s Republic, investments in subsequent years began to decline significantly. Instead, it was the export economy that spurred growth. In addition, it is important to note private consumption in Taiwan, South Korea and Japan in these initial stages amounted to between 60 and 70 per cent of gross domestic product.<sup>15</sup> In China, the share of private consumption in gross domestic product has instead amounted to only about 35 per cent over the past few years.<sup>16</sup>

Unlike the situation of its neighbours at the time, the People’s Republic today has no hope of compensating for lower returns on investments by significantly increasing exports. This is because their primary customer bases in the U.S. and Europe are growing only very sluggishly, and China cannot count on any “export boom” being triggered in the medium term. Consequently, there is no alternative to significantly increasing private consumption.

15 | Cf. David Dollar, “China’s Rebalancing: Lessons from East Asian Economic History”, *John L. Thornton China Center Working Paper Series*, The Brookings Institution, 2013, 8.

16 | This number is partially contested by Chinese authors and they place it significantly higher. See Jun Zhang and Tian Zhu, “Re-Estimating China’s Underestimated Consumption”, 7 Sep 2013, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2330698](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2330698) (accessed 5 Jun 2014)

## Regional effects

**If China invests less, imports of raw materials and capital goods are also reduced. In such an event, the Asian supplier states can anticipate export losses.**

Beijing therefore inevitably sets the agenda for the other Asian economies. If China invests less, imports of raw materials and capital goods are also reduced. In such an event, the Asian supplier states can anticipate export losses. A decrease in demand by Chinese customers would have a significantly greater effect on most of the Asian countries than declines in trade exports to Europe, and the U.S. would because the People's Republic is the largest trade partner of the ten member states of the Association of Southeast Asian Nations (ASEAN). The same is true of South Korea, whose exports to China make up over 26 per cent of its total exports.<sup>17</sup> Even after significant losses, China remains Japan's second largest trade partner after the U.S.<sup>18</sup> The consumer goods industry in Asia would of course profit if private consumers' demand were to increase. However, the share of imports in end-use consumption in the People's Republic is comparatively low. And up until now, only a few Asian countries (in contrast with European car manufacturers, for example) have been in a position to supply the Chinese market with durable, high-quality consumer goods.

As a result, other Asian economies must also reduce their dependence on exports. However, unlike China in the past, they will only be able to compensate for potential declines in growth with higher investment to a limited extent. Still, this is contradicted by the fact that the U.S. is likely to gradually withdraw from its loose monetary policies over the next few years. As with the Indian rupee (2013), the currencies of Thailand, Indonesia and other Asian countries are expected to lose value against the U.S. dollar. Since many Asian governments have taken out loans in U.S. dollars thanks to low interest rates in recent years,

17 | Cf. "Record Share of Korean Exports Go to China", in *The Chosun Ilbo*, 28 Jan 2014, [http://english.chosun.com/site/data/html\\_dir/2014/01/28/2014012801579.html](http://english.chosun.com/site/data/html_dir/2014/01/28/2014012801579.html) (accessed 5 Jun 2014).

18 | Japan External Trade Organization (Jetro), "JETRO survey: Analysis of Japan-China Trade in 2013 and outlook for 2014", 28 Feb 2014, [http://www.jetro.go.jp/en/news/releases/20140228009\\_news](http://www.jetro.go.jp/en/news/releases/20140228009_news) (accessed 5 Jun 2014).

it will therefore be very difficult for them to meet their financial liabilities abroad. This drives up debt and reduces the financial latitude to make additional investments.

**Many Asian countries are pinning their hopes primarily on increasing domestic consumption. The purchasing power of private households should effectively ensure economic growth in the region.**

Therefore, many other Asian countries are also pinning their hopes primarily on increasing domestic consumption. The purchasing power of private households should effectively ensure economic growth in the region and prevent emerging Asian economies from being caught in a “middle-income trap”.

### HIGH SAVINGS RATES AS A STUMBLING BLOCK

Given the relatively positive economic development that has occurred in recent years and the impressive projections for consumption, one would actually have to assume the young Asian middle class, especially in the emerging markets, is “just waiting” to spend its money. According to a 2012 Boao Review survey on consumption patterns of the middle class in various Asian capital cities, however, there is a lack of confidence preventing this.<sup>19</sup>

Between 50 (New Delhi) and 70 per cent (Beijing) of survey respondents indicated they were “not optimistic” about their country’s continued economic development. The intention to “save more” of their household income in the future was expressed by 46 per cent of respondents. Only 13 per cent wanted to “spend more”. On average, respondents spent about half of their household income on subsistence, rent or mortgage payments, cars and travel costs; a further 30 per cent went to savings and the remaining 20 per cent was “invested”, which included securities and other forms of investment along with children’s education

19 | Cf. Tara Ouyang, “Report on Consumption Patterns among Asia’s Middle Class”, Boao Review, *2012 Boao Survey Report*, 6 Jan 2013, <http://www.boaoreview.com/plus/view.php?aid=131> (accessed 18 Jun 2014). Respondents were approached in Beijing, Hong Kong, Tokyo, Seoul, Singapore, Kuala Lumpur, Bangkok, Hanoi and New Delhi. According to the survey, representatives of the “middle class” were those with “some form of higher education”, earned an average annual household income between 5,000 and 10,000 U.S. dollars after tax, were employed in a “middle class job” (e.g. civil servants, managers, skilled workers) and “consider himself or herself a member of the mid-level of society in their home country”. DR © 2014. Konrad Adenaur Stiftung e. V.

expenses.<sup>20</sup> Thus, one-third of respondents to the Boao Review survey spent between eleven and 20 per cent of their annual income on school tuition, tutoring and student fees.

**In Beijing, three-quarters of respondents answered “an increase in the level of social security” would lead to greater consumption. In Tokyo, 46 per cent of respondents agreed with this assessment.**

When asked what would have to change in order for the middle class to spend more money on consumption and save less, respondents specified a reduction in housing costs and property prices as by far the most important influencing factor. In Beijing, three-quarters of respondents stated that “an increase in the level of social security” would also lead to greater consumption. In Tokyo, 46 per cent of respondents agreed with this assessment, in Singapore almost 41 per cent.

A telephone survey conducted by Eden Strategy Institute in March 2014 suggests the attitudes of the Asian middle class have fundamentally changed only very little even five years after the outbreak of the U.S. banking crisis.<sup>21</sup> Middle-income participants in India, the Philippines, Indonesia and Vietnam were approached for the survey. Among other things, they were asked to provide information about what they would do if their household income were to be doubled. In Vietnam (30.9 per cent), Indonesia (36.4 per cent) and India (24.4 per cent), the most common response given was “save it”. In the Philippines, 42.8 per cent of respondents answered they would save it. The desire for higher savings documented in the Philippines was, however, “only” the second most common response given, as most Filipinos (47.4 per cent), in contrast to the other countries surveyed, would use the extra income to start their own company or business.

20 | Savings for schooling and children's education were often considered as investments rather than savings in most Asian countries because the future “returns” are higher than the interest on a savings account or yields on securities. This is because a good education for their children comes with the promise of a well-paid job later, which will proportionally improve the parents’ (“investors”) financial situation (e.g. financial support by children when they reach retirement age). Education savings may be considered savings in this paper.

21 | According to: Eden Strategy Institute and the EMC Initiative, *Asia Emerging Middle Class Survey Report*, Singapore, 2014, <http://emergingmiddleclass.com> (accessed 5 Jun 2014).

The results of the Eden Strategy Institute survey provide no information as to why and for what purpose the Asian middle class would save their money (and would prefer to save even more with higher incomes). However, the respondents' concerns do provide a clue. The most frequent answer in all countries surveyed was the fear of health problems. In Indonesia, Vietnam and the Philippines, the fear of illness far outweighs other concerns, including losing one's social status, housing or friends. Only in India does the fear of losing one's job almost approximate the concern for one's own health.



In the Indian city of Nagpur, civil service candidates wait for their exam results: On the free market, a university degree is not a job guarantee. | Source: Ganesh Dhamodkar, flickr @@.

Of course, this is no "Asian phenomenon". The fear of illness also worries people in other parts of the world. However, the issue is seen as particularly devastating for the Asian middle class given the fact that, traditionally, the populations of many countries have been inadequately protected against illness. According to the Eden Strategy Institute survey (see table 3), more middle-income people in Vietnam have a credit card (33 per cent) than have private insurance (23.8 per cent). In Indonesia (16.6 per cent), India (21.5 per cent) and the Philippines (19.6 per cent) insurance is equally uncommon. The values recorded by the survey include all forms of private coverage through insurance policies combined. In addition to private supplementary insurance for illness, this would also include life insurance or general liability insurance. The share of

health insurance in total coverage through insurance policies would therefore be even lower than the values listed above.

Table 3

**Survey of the Eden Strategy Institute on the middle class in Asian emerging economies (in per cent)**

Question: If your household income were doubled, what are the top three things you would do with the extra money each year?

Country	Save it	House	Start a business	Educational	Food	Car/motorcycle	Mobile phone	Travel
India	24.4	20.5	21.4	21.8	15.3	19.5	20.3	17.7
Indonesia	36.4	18.0	28.5	22.1	10.2	16.7	14.1	10.5
Philippines	42.8	24.6	47.4	28.5	18.9	11.0	11.4	—
Vietnam	30.9	25.3	21.3	13.9	11.5	19.6	16.6	21.1

Question: What are you most afraid of losing?

Country	Health	Job	Savings	Friends	Social Status	House
India	21.8	18.4	15.0	15.3	16.6	12.3
Indonesia	37.6	18.4	7.3	16.2	10.2	9.1
Philippines	38.4	1.0	17.6	12.4	6.5	9.7
Vietnam	40.1	14.0	9.8	13.3	12.9	9.5

Question: Do you currently own one of the following things?

Country	Smart phone	Credit card	Private insurance	Loan payments
India	33.7	16.4	21.5	17.0
Indonesia	33.0	19.4	16.6	16.4
Philippines	57.9	14.8	19.6	19.3
Vietnam	44.2	33.0	23.8	15.4

Source: N. 21.

## SOCIAL SECURITY AND SAVINGS RATES

To summarise up to this point, Asian economies must increase their gross domestic product in the future to at least the current level in order to draw more people out of poverty and to overcome existing income disparities. However, further development is subject to numerous risks (weak exports, debt, lower returns on investments) and requires, also driven by China, economic models being adjusted in favour of increasing domestic consumption. The emerging Asian middle class takes on a supporting role in this process. While this population group's purchasing power and propensity to consume are increasing overall, the middle class is saving a substantial part of their income for private pensions and risk prevention.

Against this backdrop, Taiwan has highlighted how comprehensive statutory health insurance can impact the savings rates of private households. Between 1994 and 1998, the local National Health Insurance (NHI) was extended to cover almost the entire population (97 per cent). Chou, Liu and Hammitt (2003) have thus calculated savings rates among employees in the private sector as well as among the unemployed fell by 8.6 per cent to 13.7 per cent and consumption expenditure increased by 2.9 per cent to 3.6 per cent.<sup>22</sup> Chyi and Liu (2007) have essentially come to the same conclusions. Their analysis also takes into account unemployment insurance (1999) and pensions (2002) in Taiwan. The empirical model defines the population's savings accumulated for retirement or emergencies depending on the asset, the amount of fixed income and income uncertainties, for example, due to (impending) job loss. The latter would have significantly increased for all those in employment across all economic sectors after Taiwanese companies were permitted to invest in the People's Republic of China for the first time in 1990. According to the results of the study, private Taiwanese households will

22 | Cf. Shin-Yi Chou, Jin-Tan Liu and James K. Hammitt, "National Health Insurance and precautionary saving: evidence from Taiwan", *Journal of Public Economics*, Vol. 87, 2003, No. 9-10, 1873.

save demonstrably less if the government's social security schemes effectively reduce income uncertainty.<sup>23</sup>

This example corresponds to developments in South Korea. Unemployment insurance was introduced there in 1995. Statutory health insurance has been in place since 1977, initially for employees of larger companies, state officials and civil servants. By the end of the nineties, government health care was extended to all those in employment, including self-employed entrepreneurs and freelancers. Comprehensive pension insurance has been in place since 1999. Since then, the savings rate of private households has fallen from nearly 30 per cent to seven per cent in 2007.<sup>24</sup>

China has been gradually expanding its health insurance system since the early 1990s. By 2003, however, almost a quarter of the poorer rural households could not afford medical treatment. That same year, the government in Beijing responded with the New Cooperative Medical Scheme (NCMS). Cheung and Padieu (2012) have determined this particularly benefited the lower-middle class. They were able to reduce their savings rate and spend more money

**Under China's new medical scheme, private households must first pay for medical treatment themselves before being reimbursed for the costs.**

on consumption. However, the NCMS had very little or no effect on the upper-middle class (and above). This income group is partly privately insured against illness, especially in urban centers. In the bottom quarter of the income spectrum, however, the NCMS' impact on consuming power fell short. Even under the new system, private households must first pay for medical treatment themselves before being reimbursed for the costs. Thus, even the poorer sectors of the population must continue to save for emergencies. Furthermore, one cannot always be sure whether medical expenses will be fully or only partially reimbursed. In this respect, the NCMS has not been

23 | Cf. Yih-Luan Chyi and Yu-Lun Liu, "Income Uncertainty and Wealth Accumulation: How Precautionary are Taiwanese Households?", *Asian Economic Journal*, Vol. 21, 2008, No. 3, 301.

24 | Cf. Eswar Prasad, "Rebalancing Growth in Asia", *Finance & Development*, Vol. 46, 2009, No. 4, 21.

sufficiently able to reduce income uncertainties (in this case extra costs in the event of illness) in this population group.<sup>25</sup>

### **SOCIAL SECURITY AND PRODUCTIVITY**

The reasons why, Taiwan and South Korea, for example, have achieved better results with their social security systems than countries like the People's Republic of China (as yet) is not necessarily related to the fact that the Asian "tiger economies" have adopted more sustainable models. On the contrary: in terms of their basic design, the social security systems in the Far East, including China, along with Indonesia, Thailand, Malaysia, Vietnam and the Philippines emulate the "prototype", i.e. countries with high per capita income.<sup>26</sup>



The Sungkyunkwan University in Seoul: In order to entice the greatest number of people to invest in university studies, the population should see better income prospects in economic sectors with high qualification requirements than those in the informal sector. | Source: Adam Dongwoo Kim, flickr ©©©.

25 | Cf. Diana Cheung and Ysaline Padieu, "Impacts of health insurance on household savings across income groups in rural China", Oct 2012, [http://www.econ.brown.edu/students/alexander\\_eble/cheung.pdf](http://www.econ.brown.edu/students/alexander_eble/cheung.pdf) (accessed 5 Jun 2014).

26 | Singapore is the only country in Asia that, though it has achieved a high level of income, has practised a very different model of social security savings plan, the Central Provident Fund (CPF), since the mid 1950s.

**In South Korea and in Taiwan, social security systems were initially only catered to those employed in the formal sector. Freelance workers or farmers received only limited coverage.**

By the 1970s at the latest, i.e. well before democratisation, South Korea and Taiwan wanted to catch up with Japan's economic development and, in the process, the world market. At the time, the social security systems were initially designed as "two-tiered" systems: during the early stages of economic development, only those employed in the formal sector were entitled to benefits. This included employees of larger companies and civil servants, government employees and military members. Those employed in the informal sector, including independent small business owners, freelance workers and farmers, however, were either not covered or were covered to a very limited extent.

Although it was essentially about combating poverty, it did not include a greater degree of social security for the poor. It was a matter of growth and increasing income, not (or only indirectly and in the long term) a matter of overcoming income disparity. The goal was to diversify the economy and increase productivity. For this purpose, employee qualifications had to be significantly increased. In order to entice the greatest number of people to invest time and money in higher education and university studies, the population should see significantly better income prospects in economic sectors with high qualification requirements than those in agriculture or the informal sector, for example. The social protection concentrated on skilled workers, engineers and managers in the high-tech and export sectors (e.g. shipyards, hard drives, electronics, vehicle production) was therefore considered an attractive bonus compared to less productive sectors. Employees in large, internationally active corporations were clearly preferred over employees in small firms.

Just as in Japan previously, it was generally acknowledged that this development did not occur under the conditions of free trade. State subsidies, high tariffs and numerous non-tariff trade barriers provided advantages to the emerging industries in South Korea and Taiwan over their foreign competitors. As a result, the two "tiger economies" were able to expand the formal sector relatively quickly, accumulate more people working in jobs covered by social security, increase wages for large portions of the population

and significantly increase the share of domestic consumption in gross domestic product. Only with the democratisation in the late 1980s were the less privileged sections of the population able to enjoy the benefits of social security. However, initially both Taiwan and South Korea essentially retained their “two-tiered” model. Until the introduction of the comprehensive social protection systems mentioned above, the first step in expanding social security protection was to extend coverage to those employed in the formal sector. For example, employees of smaller companies were also included now. The informal and agricultural sectors, however, continued to be ignored for a long time.



Migrant workers in Thailand wait for medical treatment: Since 2001, medical care in public hospitals has become nearly free of charge in the Southeast Asian country. | Source: Ko Min Oo, ILO, flickr ©©©©.

Many other countries in the region, including Thailand, the Philippines and Indonesia, have adopted similar systems. Consequently, in the early stages of their economic development, only regular or formal employees in selected sectors, including civil servants and members of the military, were covered by the social security system. The entire informal and agricultural sectors in turn remained excluded. As with the case in Taiwan and South Korea, the situation has changed with democratisation. Thailand<sup>27</sup> has

27 | Once again, the military staged a coup in Thailand in 2014. Thus, unlike in South Korea and Indonesia, one cannot distinguish one individual phase of democracy in Thailand. ▶  
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had unemployment insurance since 2004. As of 2001, the medical care in public or state hospitals has become nearly free of charge (“30-Baht Scheme”). A pension scheme for civil servants and members of the military has existed since before the Second World War. By the turn of the millennium, the system was extended to all those in formal employment. People in Thailand below the poverty line have received a financial subsidy for medical care since 2009. Indonesia has introduced free medical care to poorer population groups in 2004. Since the late nineties, the Philippines have expanded their health insurance system to include employees in the informal sector (e.g. street vendors, small farmers), pensioners and the poor. The examples go on.

**People in Thailand below the poverty line have received a financial subsidy for medical care since 2009. Indonesia has introduced free medical care to poorer population groups in 2004.**

The problem lies in the fact that though many of the less-developed Asian economies have also improved their social protection systems in recent years, the increase in labour productivity has not kept pace with this development. As of now, only Japan, Singapore, South Korea and Taiwan approach the level of GDP per employed person as that in the U.S. or Europe. By contrast, labour productivity in Indonesia and the Philippines is only about a tenth of the GDP per employed person in Singapore.<sup>28</sup> In the most productive countries in Asia, the share of agriculture in value creation is correspondingly minimal. In contrast, this proportion in countries such as Nepal, (36.9 per cent), Cambodia (36.1 per cent) and Laos (29.1 per cent) is still quite high.<sup>29</sup> Along with growth, they continue to profit from their “demographic dividends”, meaning the proportion of people aged between zero and 14 years is comparatively high and the number of those over age 65 is low (Pakistan: 35 and four per cent, respectively; the Philippines: 34 and

Therefore, the 1997/1998 Asian financial crisis is used as a reference point here. It significantly increased pressure on the Thai government to implement social reforms. Speaking in very broad terms (!), a “transition” must be discussed here because, since 2005, the Thai Democrat Party, which is largely oriented toward the economy and the urban middle class, has defined social security as one of its main aims. Even in the late 1990s, when it was in government, the party had initially cut social spending as a result of the crisis in Asia.

28 | Cf. Asian Productivity Organization, *APO Productivity Data-book 2013*, Tokyo, 2013, 58.

29 | Cf. *ibid.*, 89.  
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four per cent, respectively).<sup>30</sup> Given the comparatively low labour productivity, this affects GDP per capita: of the countries analysed here, only Japan and the Asian “tiger economies” achieve five-figure amounts annually.

The benchmark figures outlined above correspond consistently with the level of social security.<sup>31</sup> In this respect, Japan is the leader of the pack ahead of South Korea and Singapore. Meanwhile, of the total of approximately 28 million people in Malaysia, the country’s social security system only covers about one million people.<sup>32</sup> Indonesia, Bangladesh, Laos and Cambodia are at the bottom of the table in terms of social security in Asia, while Indonesia could spend significantly more on social insurance measured in terms of GDP per capita.<sup>33</sup>

**Indonesia, Bangladesh, Laos and Cambodia are at the bottom of the table in terms of social security in Asia, while Indonesia could spend significantly more on social insurance measured.**

The question is: have the popular “two-tiered” social protection systems that have been gradually expanded worked, and will they remain promising in the course of further development in the region?

## CONCLUSIONS AND OUTLOOK

If domestic consumption is to play a much greater role in economic growth compared to government investment and exports for the entire region in the future, all the Asian economies must increase their expenditure on social security significantly. To put it simply, the requirements for this can be divided into two groups:

In Japan, the “tiger economies” in Far East Asia, China and Singapore and soon in Thailand as well, social security systems will be put under pressure due to rapidly ageing societies and longer average life expectancies. As in Europe, the costs of pensions and health care will inevitably rise

30 | Cf. *ibid.*, 44.

31 | With the exception of Mongolia and Uzbekistan, which provide their citizens with good social security and spend large amounts of state funds in doing so; this might be a relic of the former communist regime. In any case, the social systems there are disproportionate to GDP per capita and labour productivity.

32 | Cf. ADB, *The Social Protection Index*, Mandaluyong City, 2013, 30.

33 | Cf. *ibid.*, 13.

in these countries. This will place considerable burdens on the public purse for social security expenditures. If the states in question do not wish to sink further into debt, they will need significantly higher tax revenues. In order to do so, private households will have to contribute more. Substantial effort will be required to increase purchasing power and consumer demand. The economic reforms in Japan,<sup>34</sup> referred to as “Abenomics”, are currently the best-known example.

**Inflation supports Japanese exports because the weaker yen reduces the price of Japanese products in the global marketplace.**

The central idea of these reforms, which the Japanese government under Prime Minister Shinzo Abe has promoted, includes low interest rates and a massive expansion of the supply of money. This is meant to achieve an inflation level of approximately two per cent by 2015. Inflation supports Japanese exports because the weaker yen reduces the price of Japanese products in the global marketplace. At the same time, inflation and low interest rates are meant to boost consumption because high savings in anticipation of rising prices become less attractive. In hopes of this, the Japanese government increased the value added tax in April. Higher wages should compensate for the additional burden on consumers. The government in Tokyo hopes profits from companies in the export business and the stock market will be used to finance the salary increases. In addition, a reduction in corporate income tax is planned. Given the extremely high levels of government debt in Japan, “Abenomics” in such a configuration are certainly accompanied by numerous risks. In other Asian economies with a rapidly ageing population, these reforms will be followed with interest because Japan is responding to macroeconomic correlations that are relevant to China and South Korea.

For most ageing societies, we tend to observe savings rates decrease in the long term and the propensity to consume, as well as inflation, increase. The tertiary sector (services, commerce, transport, logistics, banking, etc.) particularly benefits from this. The secondary sector (manufacturing,

34 | Cf. Paul Linnarz, “Der ‘Ritt auf dem Tiger’. Hoffen und Bangen um Japans Zukunft”, KAS Country Report (German), 18 Oct 2013, <http://kas.de/japan/de/publications/35760> (accessed 18 Jun 2014).  
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energy, construction), however, loses. In the long term, the share of GDP in exports and investment correspondingly decreases. Due to inflation and the development of the labour market (fewer workers), wages and salaries increase. Consumption by private households thus plays a key role in economic growth and tax revenues used to finance social security systems. It offers the potential for new jobs, especially in the service sector. This is predicated on the fact that the economy adjusts to the changing demands of its ageing population. Capital-intensive sectors (e.g. steel and vehicle production, but also suppliers in the electronics sector) have to cope with losses over the long term, while the labour-intensive sectors of a “silver economy” – which includes the services on offer that have been adjusted to suit to the growing number of older consumers, including health, recreation, travel and insurance – gain in importance.



Keyword “Abenomics”: Low interest rates and an expansion of the supply of money build the core of the reforms of the Japanese government under Prime Minister Shinzo Abe, here with Commission President José Manuel Barroso and European Council President Herman Van Rompuy in June 2014 in Brussels. | Source: Christos Dogas, European Council, flickr ©①②③.

Also put simply, the second group includes countries with lower labour productivity in South and Southeast Asia. In order to sustainably combat poverty in those countries and to be able to provide the large number of young people with an adequate livelihood, the economy must continue its strong growth in the future. In order to be competitive internationally, more jobs in the secondary and tertiary sectors are necessary. As long as almost 60 per cent of the population in a country like India continue to work

in agriculture yet only contribute approximately 15 per cent of the country's gross domestic product, growth in labour productivity will only be inadequate at best and economic growth will inevitably continue to fall short of expectations. Even with new jobs in manufacturing and the service sector, the significant (and often still growing) income disparities can only then be overcome through regular employment. Currently, a large part of the labour force in South and Southeast Asia (India: roughly 80 per cent) instead still work in the informal sector, which is to say they usually work without a contract and without a regular income. Large portions of the population are therefore neither able to afford private health insurance, nor do they benefit from effective state protection.<sup>35</sup> People in rural regions must often walk great distances to receive medical care (in cities). There, the treatment is expensive. They must have financial savings to make up for the lack of health insurance, which in turn does not flow into domestic consumption.

**Many countries in South and Southeast Asia must establish a suitable framework for foreign direct investments and public-private partnerships. This includes a reduction in bureaucratic obstacles and combating corruption.**

Unlike, for example, Japan, South Korea and Singapore, many countries in South and Southeast Asia remain dependent on significant investments for additional regular (insurable) employment in the most productive possible areas of the secondary and tertiary labour sectors, for example, in the expansion of transportation infrastructure. The governments of the countries in question will only partially be able to shoulder this expense. Furthermore, they must establish a suitable framework for foreign direct investments and public-private partnerships. This includes a reduction in bureaucratic obstacles and combating corruption.

As a result, for many countries in South and Southeast Asia, "inclusive growth" and effective social protection of the population must be accompanied by a significant increase in labour productivity. Taken on its own, this means the

35 | Therefore, while there are 13.7 hospital beds for every 1,000 inhabitants of Japan (2009), the figure in the Philippines was only 0.5, while in India and Cambodia (2011) it amounted to only 0.7 beds per 1,000 inhabitants. Cf. World Bank, "Hospital beds (per 1,000 people)", World Bank Databank, <http://data.worldbank.org/indicator/SH.MED.BEDS.ZS> (accessed 18 Jun 2014).

expansion of the consumer base driven by demographic development (population growth) is not a long-term solution. On the contrary, the “jobless growth”<sup>36</sup> in recent years has even exacerbated income disparity and, in the process, endangers social stability. In the ageing Asian societies with high per capita incomes, increasing domestic consumption is paramount for long-term social protection.

As previously stated, this is only a very rough classification. After all, Japan is making significant efforts to improve its productivity, is planning labour market reforms, a reorganisation of its banking and energy sectors, as well as the establishment of special economic zones. And of course, China must also develop further in this direction, so household income increases and social security can be effectively extended to all segments of the population. But at the core of the issue lies the distinction between where the problems lie and why the “two-tiered” model of social protection will probably continue to dominate for a long time before the existing income disparities can be comprehensively overcome, and a financial middle class can be established in rural areas and not just in cities. This will understandably take many years because it requires considerable effort in terms of schooling and university education.

The savings of the young Asian middle class are not a sufficient basis for the required investments in the education sector. And, just as was demonstrated in South Korea, Japan and Taiwan several decades ago, those who receive a better education with government support must be presented with incentives to stay in their countries. These include secure prospects for pensions and confidence in government risk provisions. Instead, the number of Asian immigrants in OECD member states increased by almost ten per cent in 2010. In 2012, more than one million Filipinos emigrated to seek employment in the Gulf States, Singapore, Hong Kong and China. Every year since 2008, Sri Lanka has lost 250,000 workers; in Thailand that figure is 100,000. In 2011, 71 per cent of all temporary work permits for higher-value jobs in the United States were awarded to Asian applicants.<sup>37</sup> The upheavals in Northern

**Those who receive a better education with government support must be presented with incentives to stay in their countries.**

36 | Cf. ILO, n. 12.

37 | Cf. ADB Institute, *Labor Migration, Skills & Student Mobility in Asia*, Tokyo, 2014, 1 et seq.

Africa that have occurred since 2011 have demonstrated a lack of opportunity and frustration over the situation in one's own country, especially in very young societies, can result in less peaceful situations than simple emigration. Thus, time is of the essence!

# RESOURCE WEALTH AND RAW MATERIALS BOOM

## CHALLENGES FOR GOVERNANCE AND DEVELOPMENT IN SUB-SAHARAN AFRICA

*Bernd Althusmann / Angelika Klein / Stefan Reith*

### CURSE AND BLESSING OF RESOURCE WEALTH

The political agenda of all states of Southern Africa involves socioeconomic issues such as working conditions and the minimum wage, efficient education and healthcare systems, the development of pension systems, women's and equality issues, the impacts of climate change and energy security, as well as sustainable agriculture to feed the countries' populations. There are also fundamental discussions taking place about the extent to which the state should be present in the different areas of people's lives. In addition, the issue of natural resources and the relevant economic and industrial policies represent some of the major challenges for development policy in the countries of Sub-Saharan Africa.

Articles in the international press about the economic boom in Africa range from enthusiastic in tone, which paint a picture of the African Lion, making reference to the outstanding growth rates of many African states in the last few years, to more reflective articles, which put a critical spotlight on the dependence of most of the "Lions" on their raw material exports. The way the mineral resources are dealt with, the production conditions and the interests of numerous external actors continue giving rise to questions regarding the likely impacts on the African countries. A closer examination shows numerous internal conflicts in these countries (as well as cross-border conflicts) are due (exclusively) to the competition to secure resources. Whether the nominal economic growth and booming raw



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material exports go hand in hand with developmental progress and growing prosperity for wide swathes of the population in the respective countries depends to a large extent on how the governments exploit this potential and on how they deal with it politically. Alongside the euphoria surrounding envisaged economic benefits, there are concerns about the negative impacts of oil production. The problems of the so-called “raw material economies” are well-known. In many cases, they belong to the least prospering economies. They suffer from the fact that a certain kind of wealth actually produces poverty, and abundant resources tend not to generate sustainable growth but “immiserising growth” (paradox of plenty). However, states and societies are not passive victims of the “resource curse”, which suggests helpless surrender. Instead, they can break the “curse” through purposeful and early intervention and generate development opportunities.

One of these phenomena is known as the “Dutch disease”<sup>1</sup> which first occurred in the Netherlands in the 1960s, when the Groningen natural gas field was developed. This phrase summarises the way in which a country rich in raw materials can develop into a rentier state. The export of raw materials and high commodity prices generate

**In the course of the “Dutch disease”, investments concentrate on the raw materials sector which experiences a greater economic surge. Jobs in the traditional sectors are destroyed, and the risk of inflation rises.**

a considerable influx of foreign currencies. As a result, the domestic currency becomes overvalued and other exports become more expensive, reducing the competitiveness of the economy with devastating consequences for agriculture and industry. Investments concentrate on the raw materials sector which experiences a greater economic surge than other sectors. Jobs in the traditional sectors are destroyed, wages and prices are driven up, and the risk of inflation rises. In addition, the high commodity prices promise high bond yields. This undermines incentives for investments in other industry sectors. In the end, rentier economies evolve that are not underpinned by labour, production or entrepreneurial initiative. Instead,

1 | Cf. “Dutch Disease”, in: Erwin Dichtl and Ottmar Issing (eds.), *Vahle's Großes Wirtschaftslexikon*, Vol. 1, Munich, C.H. Beck, 1993, 2<sup>nd</sup> ed., 480; Christine Ebrahim-zadeh, “Dutch Disease: Too much wealth managed unwisely”, *Finance and Development*, Vol. 40, No. 1, 2003, <http://www.imf.org/external/pubs/ft/fandd/2003/03/ebr.a.htm> (accessed 27 Jun 2014).

they are characterised by a high level of dependence on the raw material. Because that is the exclusive focus of the economy, there is less diversification, and consequently, value creation in the country declines. Unemployment, on the other hand, increases. This is because oil production absorbs only few domestic workers. Usually, the technical staff comes from abroad, is highly specialised and well paid. This results in an unequal income and wealth distribution with the familiar political and social implications.

Table 1

**State expenditures on education and the military**

Country	Public spending on education, total (in per cent of government expenditure)	Military expenditure (in per cent of central government expenditure)
Angola	8.9	13.8
Namibia	23.7	9.8 (2011)
Uganda	13.5	10.0
Tanzania	21.2	4.7
Botswana	18.6 (2009)	7.6
Ghana	21.2	1.2 (2011)
Sub-Saharan Africa (developing only)	18.1	6.6

Sources: The World Bank, "Military expenditure (% of central government expenditure)", <http://data.worldbank.org/indicator/MS.MIL.XPND.ZS> (accessed 27 Jun 2014); The World Bank, "Public spending on education, total (% of GDP)", <http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS> (accessed 27 Jun 2014).

When income and wealth are distributed among a limited number of people, it is accompanied by a concentration of power. The revenues from selling the raw materials make "free" funds available to the government. Consequently, it will be less reliant on taxing its own population, and the principle of "no taxation without representation" is no longer effective. People are included less and less in political processes, and they become increasingly estranged from the government. Democratic structures are weakened, institutions are undermined, and accountability and oversight decline. The worse a system is at guaranteeing

checks and balances, the less the need for the government to be accountable. Furthermore, corruption generates a new mode of distribution. As a result, authoritarian power structures become entrenched, and the executive neglects social areas while investing in status projects to demonstrate its power as well as in the military. This is because the flow of money offers the governing elites the opportunity – and increasingly the need – to secure their power militarily. Thus, reserves of natural resources and their exploration can exacerbate existing conflict potential or create new tensions and conflicts, up to and including civil war and war.

The states in Sub-Saharan Africa are approaching the issue of resources and the abundance of raw materials in very different ways. Observers usually point to Botswana and to Ghana – with some reservations – as positive examples, which demonstrate that by employing intelligent policies it is possible to handle the exploration of resources – particu-

**In Botswana and Ghana, profits from the raw materials sector have enabled the governments to expand public services in the education and healthcare sectors, and poverty rate reduction.**

larly diamonds in Botswana and oil and gold in Ghana – in such a way as to allow considerable numbers of the population to benefit. In these two countries, profits from the raw materials sector have enabled the governments to expand public services, for instance in the education and healthcare sectors, and furthered job creation and poverty rate reduction. In the Petroleum Revenue Management Act (PRMA), Ghana created a legally regulated fund in 2011, which oil-extracting companies contribute to. Those funds were then used to improve the country's infrastructure and invested in a useful manner into important projects in Ghana.<sup>2</sup> Ideally, the utilisation of these funds should involve various social groups such as Churches and religious communities, trade unions and the media, thereby increasing the acceptance of proposed projects among the population through an independent monitoring body (Ghana's Public Interest and Accountability Committee) and ensuring credibility. The population

2 | Cf. Efam Dovi, "Ghana's 'new path' for handling oil revenue. Seeking to avoid the ill effects of Africa's resource 'curse'", *Africa Renewal*, Jan 2013, <http://un.org/africarenewal/magazine/january-2013/ghana's-'new-path'-handling-oil-revenue> (accessed 19 Jun 2014).  
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had already been involved in the drafting of these legal regulations.<sup>3</sup>

Ghana uses a similarly transparent approach in the area of mining, specifically gold mining. According to the responsible government department, transparency and investment security are being established in the mining sector through comprehensive recording and documentation of the raw material reserves and their exploration, thus preventing corruption and creating fast decision-making processes.<sup>4</sup> Added to this is a high level of corporate responsibility for employees' working conditions the companies take seriously. This contributes to a social balance between citizens, the state and businesses, the like of which does not exist in other countries of Southern Africa.<sup>5</sup> In Ghana, long-term social interests of the different levels of society are given greater consideration in connection with the mining of the raw materials and are reconciled with the interests of the state. Although there remain some imbalances in terms of income distribution, and remote areas poor in raw materials in particular battle with great poverty, the country appears to have succeeded in making a good start in letting the population gain some benefit from the revenues from raw material sales.<sup>6</sup>

Botswana's strategy regarding raw material extraction, and in particular the trade in diamonds, is similar to Ghana's approach. The Pula Fund collects the revenues and the associated foreign exchange receipts for the purpose of improving the country's infrastructure and education services.<sup>7</sup> In Botswana, a largely guaranteed rule of law

3 | Cf. Mohammed Amin Adam, "Petroleum Revenue Management Bill Promises Greater Transparency and Accountability", 7 Mar 2011, <http://ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=204394> (accessed 19 Jun 2014).

4 | Cf. Carina Borralho, "Resources Minister on Ghana's mining potential", *Creamer Media's Mining Weekly*, 11 Apr 2014, <http://miningweekly.com/article/resources-minister-on-ghanas-mining-potential-2014-04-11> (accessed 19 Jun 2014).

5 | Cf. Paul Yankson, "Gold mining and corporate social responsibility in Ghana", *Development in Practice*, Mar 2010, 354-366.

6 | Cf. Nathan Andrews, "Community Expectation from Ghana's New Oil Find: Conceptualizing Corporate Social Responsibility as a Grassroots-Oriented Process", *Africa Today*, Jan 2013, 69.

7 | Cf. Michael Lewin, "Botswana's Success: Good Governance, Good Policies and Good Luck", in: Punam Chuhan-Pole and Manka Agwafo (eds.), *Yes, Africa Can: Success Stories from Dynamic Continent*, The World Bank, 2011, 81-90.

and a transparent decision-making process secure ownership and democratic participation where the utilisation of profits made from resources is concerned.<sup>8</sup> Traditional consultative institutions, known as *kgotla*, underpin this participative practice; through these institutions, which offer the right to be heard and to be involved in the decision-making, the government seeks a consensus with the population regarding resource use.<sup>9</sup> It remains to be seen whether this combination of broad citizen participation and securing or strengthening the common good through mineral resources will be sustainable in the long term, particularly once the resource reserves begin to dwindle. For the foreseeable future, Botswana has proved to be more farsighted than others by utilising resources for its people and not against them. Other African countries should take heed and follow its example.

Angola and Nigeria with their vast oil reserves as well as the DR Congo with its abundant raw materials are considered epitomes of corruption and mismanagement and alarming examples of failure. In these countries, raw materials have caused serious distribution conflicts. While

**The discussion on how abundant mineral resources can contribute to sustainable development is in full swing not only in international development cooperation but also in the partner countries.**

a small elite continues to enrich itself and consolidates its own political and economic powers, the countries' people are suffering from the consequences of ruthless exploitation of the mineral resources. Each country will have to answer the question of whether natural resources become a curse or a blessing for itself. The discussion on how abundant mineral resources can contribute to sustainable development is in full swing not only in international development cooperation but also in the partner countries. The countries of Angola, Namibia, Uganda and Tanzania, chosen as examples here, differ in both their starting situation and their outlook.

### **NAMIBIA – GETTING READY FOR THE RAW MATERIALS BOOM**

At first glance at least, Namibia is considered one of the politically most stable countries in Southern Africa. It has been governed by the South West African People's

8 | Cf. *ibid.*, 82 et seq.

9 | Cf. *ibid.*  
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Organisation (SWAPO) without interruption for 24 years. The next presidential elections are scheduled for November 2014, and it is highly likely Prime Minister Dr Hage Geingob will follow President Hifikepunye Pohamba in his office. The opposition parties are not yet well enough established, with frequent disputes within the parties and divided opinions on which objectives to pursue in opposition to the government. Although roughly two and a half times as large as Germany by territory, with a population of 2.3 million Namibia is a small country in terms of demography. However, its importance within the African Union (AU) has been increasing, due mainly to the positive economic as well as social developments in recent years. There is at least one objective which the people with government responsibility and the opposition share, namely to become more independent of the large neighbour South Africa.<sup>10</sup>

**With a population of 2.3 million Namibia is a small country in terms of demography. However, its importance within the African Union is on the rise.**

Observers view the increasing emancipation of the Namibian economy from existing dependencies as a new model for other African countries, which do not wish to revert to times of atrocious conflicts based mostly on ethnic or religious differences. Namibia does, in fact, have the right credentials to serve as a model for the countries of Southern Africa. It is not without good reason the World Bank classified Namibia as an upper middle-income country and no longer as a developing country as far back as 2011.<sup>11</sup> Namibia is therefore ready to embark on the road to becoming an industrialised country, a goal described as achievable by 2030 in the government's National Development Plan.<sup>12</sup> However, official statements also reflect the government's worry the EU, Germany and the UN would "punish" the country in terms of international development

10 | Cf. Thomas Scheen, "Namibia schickt sich zum Aufstieg an", *Frankfurter Allgemeine Zeitung*, 13 Jun 2014, <http://faz.net/-gqg-7qe81> (accessed 26 Jun 2014).

11 | The annual per capita income was 4,267 U.S. dollars in 2011, corresponding to the purchasing power of 6,825 U.S. dollars. Cf. Transformation Index BTI 2014, "Namibia Country Report", Gütersloh, Bertelsmann Stiftung, 2014, 17, <http://www.bti-project.de/reports/country-reports/esa/nam/index.nc> (accessed 1 Jul 2014).

12 | 2030 is the target date for this goal, namely to belong to the group of industrialised countries besides South Africa as well as reducing unemployment to five per cent. See also *National Development Plan 4: Vision 2030*.

aid for the progress it makes in democratisation and development. As a result of the new income category, Brussels alone will reduce its payments due from the 11<sup>th</sup> EU Development Fund for 2014 to 2020 from the previously planned over 138 million euros to just under 68 million euros in order to improve the targeting of its development cooperation funds.<sup>13</sup> The socioeconomic or class-related discrepancies in the population, however, have only changed marginally according to the Transformation Index of the Bertelsmann Foundation (BTI). It is the governing black elite who has benefited most from the upturn to date, seeing its prosperity increase further at the expense of the poorer sectors of society.<sup>14</sup> Has Namibia not made as much progress as assumed?

Table 2

**Population figures and GDP per capita in Sub-Sahara Africa in 2012**

Country	Total population in 2012 (in million)	GDP per capita in 2012 (in U.S. dollars)
Angola	20.8	5,482
Namibia	2.3	5,786
Uganda	36.4	551
Tanzania	47.78	609
Botswana	2.0	7,238
Ghana	25.4	1,605
Sub-Saharan Africa (developing only)	911.5	1,629

Sources: The World Bank, "Population (Total)", <http://data.worldbank.org/indicator/SP.POP.TOTL> (accessed 27 Jun 2014); The World Bank, "GDP per capita (current US\$)", <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (accessed 27 Jun 2014).

13 | Comment by author: EU data from minutes of a meeting with the EU delegation in Namibia in February 2014.

14 | Cf. p. 11, 5.  
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## Natural Resource Industry in Namibia

Without the country's abundance of natural resources and relying purely on foreign aid, the achievements made in the economy and in the social democratisation process since 1990 would probably not have been possible. Namibia is currently the fourth-largest producer of uranium worldwide, and it is assisted in its efforts to consolidate this position particularly by China. Approximately one third of global uranium deposits are believed to be located in Sub-Saharan Africa.<sup>15</sup> It is therefore no surprise that there are plans for the construction of the country's first nuclear power station to improve energy security and reduce its dependence on imports. The government in Windhoek has been pursuing this project actively to become less dependent on oil and electricity supplies from neighbouring countries, particularly South Africa. The future of the energy supply is significant for the country's future development, as are the mineral resources, which are state property according to the constitution. However, their exploration is predominantly in the hands of foreign companies, most of which operate internationally.



A dependent energy sector: Namibia's President Hifikepunye Pohamba (l.) and his Prime Minister Hage Geingob (r.), here with South Africa's President in 2012, aim for becoming less reliant on energy imports from their neighbouring country. | Source: Elmond Jiyane, Republic of South Africa, GCIS ©110.

15 | Cf. CIA World Factbook, [http://indexmundi.com/namibia/economy\\_profile.html](http://indexmundi.com/namibia/economy_profile.html) (accessed 23 Apr. 2014).  
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**International mining companies contribute some 20 per cent to Namibia's GDP and directly employ over 14,000 people.**

Besides smaller and quite dynamic mining companies digging for copper, zinc and lead as well as other minerals, the Namibian raw materials industry consists mainly of international companies, such as De Beers, Anglo American, the French nuclear company AREVA, the Australian Paladin Energy and Rio Tinto as one of the globally largest mining companies, which predominantly mine for diamonds and uranium, as well as gold in smaller quantities.

These companies contribute some 20 per cent to Namibia's GDP and directly employ over 14,000 people.<sup>16</sup> According to the latest figures from a 2013 study of the labour market, the workforce only accounts for some two per cent of the working population (690,019). But the supplying and processing industries dependent on the raw materials are of enormous significance for the labour market.<sup>17</sup> Furthermore, the raw material extraction industry (including ores), which is capital-intensive and susceptible to price fluctuations on the world market, generates some 53 per cent of foreign exchange receipts for the national budget. In addition, it makes significant contributions to state revenues as a result of a combined tax, licensing and levies policy.<sup>18</sup>

In its efforts towards the goal of black economic empowerment pursued by many states in Southern Africa, Namibia founded the state-owned resource extraction company Epangelo. In April 2011, the government declared diamonds, gold, coal, copper, uranium and rare earths to be strategic resources. It stated mining licences would in future only be granted to companies in which the state had a majority stake, which is also why a strategic majority would always be secured in cooperation projects with foreign investors.<sup>19</sup> However, the government's attempt to strengthen its hold on the resource extraction industry besides the energy, transport, finance and water supply

16 | Cf. Robin Sherbourne, *Guide to the Namibian Economy 2013/14*, Windhoek, John Meinert Printing, 2014, 163.

17 | Cf. Namibia Statistics Agency, *The Namibia Labour Force Survey 2013 Report*, Mar 2014, 66, [http://nsa.org.na/files/NLFS%202014\\_Final\\_with%20bleed%20and%20crop%20marks.pdf](http://nsa.org.na/files/NLFS%202014_Final_with%20bleed%20and%20crop%20marks.pdf) (accessed 25 Jun 2014).

18 | Cf. Robin Sherbourne, "Ten things everyone in Namibia should understand about the mining industry", Insight Namibia, Mining brief, Nov 2011, 2-13.

19 | Cf. Sherbourne, n. 16, 170.  
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sectors has only had limited success. According to Sherbourne 2011, the country obviously lacks the technical as well as financial wherewithal to conduct the resource extraction successfully in collaboration with domestic companies alone. However, Sherbourne confirms the Namibian economy is steadily diversifying and the raw materials industry, agriculture and the public sector together account for over a third of GDP. Added to this is the resource-based manufacturing industry with some 14.4 per cent.<sup>20</sup> This economic diversification demonstrates once again the development of the domestic processing industry will be of enormous economic significance for Namibia by strengthening the domestic labour market. Securing participation for the country's common good can likely only be achieved through a strengthening of the direct processing of raw materials within the country, which would ultimately also benefit the weak labour market.



Hunting for oil: Namibia is heavily investing in test drillings. Non-profitable plants like that one in Kunene, become abandoned. | Source: Stuart Turner, Fiver Löcker, flickr ©©©.

### **Consequences of Resource Deposits**

The abundance of natural resources is reflected in the national budget and represents a major revenue source for Namibia, although it is not altogether clear whether this has had a positive effect on the situation of the population and who the main beneficiaries are. The results to date paint a mixed picture. According to the National Statistics Agency, the economy has enjoyed positive growth rates since 1990 (apart from 2009, the year of the global

**Despite a positive growth rate, unemployment remains high and the country far away, from a viable strategy to combat youth unemployment.**

financial crisis, and 2011 due to the nuclear accident in Fukushima), ranging between 5.7 and 5.2 per cent since 2012 with the inflation rate ranging between 6.5 and 5.2.<sup>21</sup>

Unemployment, however, continues to be high, with different figures being quoted (according to official government statistics it was some 30 per cent compared to 51.2 per cent according to the CIA World Factbook 2012). At 42 per cent, official youth unemployment seemed to be lower in 2013 than in previous years, but realistically, it was probably still above 50 per cent, as the official statistics do not cover a sizable number of adolescents, and almost three quarters of the unemployed were adolescents and young adults aged 15 to 34.<sup>22</sup> A look at the national budget shows, of the total budget, which equates to some 4.3 billion euros, 37 per cent account for the social, education and healthcare sectors, while the proportion for the fight against unemployment is only a little over three per cent of the total budget at 129 million euros.<sup>23</sup> Namibia is nowhere near making the fight against unemployment a priority, let alone devising a sustainable strategy against the high level of youth unemployment.

While the state has increased its investments into school education, pupil achievements are lagging behind expectations. Although increasing numbers of girls and boys start out on a school career, the number of pupils dropping out of secondary education is high. For years, some 40 to 50 per cent of pupils have been leaving junior secondary school after Year Ten at the latest without gaining any qualification.<sup>24</sup> This diminishes their prospects in the labour market, particularly in sectors where higher-level qualifications are required. For many families, letting their children carry on at upper secondary level and beyond is economically not feasible. According to official government figures on the labour market for 2013, almost 42 per cent of the 483,405 households had a monthly income of less than

21 | Cf. n. 17, 9.

22 | Cf. *ibid.*

23 | Republic of Namibia, Ministry of Finance, "Estimates of Revenue, Income and Expenditure. 01 April 2014 to 31 March 2017", [http://www.mof.gov.na/documents/57508/508375/Estimate+and+revenue+2014\\_2015+final.pdf](http://www.mof.gov.na/documents/57508/508375/Estimate+and+revenue+2014_2015+final.pdf) (accessed 4 May 2014).

24 | Cf. Republic of Namibia, *Annual Report of the Ministry of Basic Education, Sport and Culture*, 2001, 40.

1,000 Namibian dollars (some 70 euros); with the average household consisting of over four persons, this equates to approximately 240 Namibian dollars per person (some 17 euros).<sup>25</sup> Most families were living either on a subsistence basis in the mostly rural areas of the country or – uniquely in Southern Africa – on legally guaranteed old-age benefits (from the age of 60, people receive a statutory pension of 600 Namibian dollars a month, approximately 43 euros). The rural population is still suffering from poverty, hunger and social problems.<sup>26</sup> With living costs rising steadily, particularly due to energy prices, pensioners find it hard to survive on this income. It seems therefore poverty among senior citizens is widespread, because the number of people relying on pension payments or subsistence farming among the households that have a monthly income of over 1,000 Namibian dollars is almost negligible. Only some four per cent of households in Namibia have a monthly household income exceeding 10,000 Namibian dollars (some 714 euros).<sup>27</sup>

**The rural population is still suffering from poverty, hunger and social problems. With living costs rising steadily, pensioners find it hard to survive on their legally guaranteed benefits.**

### **Conclusion on Namibia:**

It comes as no surprise, at second glance, Namibia turns out to be a country of great differences. The economic upturn is limited to a small part of the population. A middle class is developing only slowly among the black population, and it wishes to protect its status. It is therefore no surprise either that according to the Gini coefficient (measuring unequal distribution within a society) Namibia has been the country with the highest level of income disparity for years. According to the 2014 BTI, over 51 per cent of the population live below the poverty threshold of two U.S. dollars a day.<sup>28</sup> During the current election year, government officials are stressing that high unemployment is the main cause of the high poverty rate and remains Namibia's greatest problem. One solution could be to strengthen and expand the training provision for vocational qualifications modelled on the German dual vocational training system. While Namibia has made a start with a type of

25 | Cf. n. 17, 42.

26 | Cf. "Interesting moves", *Insight*, Apr 2014, 14.

27 | Cf. n. 17, 42.

28 | Cf. n. 11, 25.

apprenticeship penalty payable by companies and plans to develop eight vocational training centers, what has been achieved to date does not bode well for the current approaches. However, the demand for young workers with technical and practical skills is high. Sherbourne believes the provision of basic and further vocational training is essential to allow the production industry for processing raw materials inside the country to be expanded speedily.<sup>29</sup> But there are also other problems affecting the country coming under the political spotlight, such as the working conditions in the mining operations. Punctually on 1 May 2014, President Pohamba and Prime Minister Geingob declared these were unacceptable and called upon the mine operators to demonstrate greater responsibility. Inhumane working and living conditions were against the constitution, which is why the Wages and Salaries Commission, specially set up to deal with the issue, would have to make greater efforts to deal with the subject of the minimum wage.<sup>30</sup> Only a few weeks earlier, a study had reported an increased cancer rate among mine workers.<sup>31</sup>

Currently, however, there is another resource making the headlines besides the mineral resources already being extracted, which has produced a rapid boom in other countries: oil. A report from April 2014 stated a Spanish oil company, collaborating with the state-owned Respol Namibia, was drilling once again for economically viable oil reserves in Walvis Bay. According to the report, the Namibian company and its partners are investing over a million Namibian dollars a day in the exploratory drilling after Namibia had already been gripped by oil fever last year, although the volumes of oil the Brazilian company HRT had found were too small to be commercially viable.<sup>32</sup> Whether and when this endeavour will prove to be beneficial to development

29 | Cf. Sherbourne, n. 16, 254.

30 | Cf. Faith Sankwasa, "Workforce must be upskilled – Pohamba", *Namibian Sun*, 2 May 2014, <http://namibiansun.com/government/workforce-must-be-upskilled-pohamba.65437> (accessed 27 Jun 2014).

31 | Cf. "Rössing under fire over toxic claims", *Namibian Sun*, 6 May 2014, <http://namibiansun.com/business/rossing-under-fire-over-toxic-claims.65544> (accessed 27 Jun 2014).

32 | Cf. Merja Illeka, "Spanish company starts drilling for oil in Namibia", *Namibian Sun*, 16 Apr 2014, <http://namibiansun.com/business/spanish-company-starts-drilling-for-oil-in-namibia.65074> (accessed 27 Jun 2014).

remains to be seen. Namibians are therefore looking with interest across to the neighbouring country of Angola.

### **ANGOLA – SOBER AWAKENING AFTER THE RAW MATERIAL RUSH?**

Thanks to its oil reserves, Angola, almost ten times as large as Namibia with a population of 21 million, has become increasingly richer, yet when looking at its society as a whole, also poorer. The country has been governed for decades by the black gold, with significant repercussions for politics, the economy and society. With respect to empirically established progress in the areas of democratic development, free-market structures and the quality of political decision-making, the BTI ranks Angola 97<sup>th</sup> out of the 129 investigated countries.<sup>33</sup> For some 35 years, the country has been autocratically governed by President Eduardo Dos Santos, last backed by a 71.5 per cent majority of the Movimènto Popular de Libertação de Angola (People's Movement for the Liberation of Angola, MPLA) in the 2012 elections. Besides the only sizable opposition party União Nacional para a Independência Total de Angola (National Union for the Total Independence of Angola, UNITA), which gained 18 per cent of the votes, the Convergência Ampla de Salvação Nacional (CASA-CE), has established itself as a third force with six to seven per cent of the votes.

**Angola has not only been governed for decades by President Eduardo Dos Santos but also by the black gold, with significant repercussions for politics, the economy and society.**

While Namibia has received the largest volume of development aid of all Southern African countries over the years since 1990 according to the Federal Foreign Office,<sup>34</sup> Angola has rejected offers of foreign assistance apart from a few exceptions. However, this can hardly be the reason for such discrepancies between two neighbouring countries. Namibia and Angola have a shared history in the freedom struggles of the MPLA in Angola and SWAPO in Namibia. These parties now have a clear governing majority in the

33 | Cf. Transformation Index BTI 2014, "Angola Country Report", Gütersloh, Bertelsmann Stiftung, 2014, 1, <http://www.bti-project.de/reports/country-reports/esa/ago/index.nc> (accessed 1 Jul 2014).

34 | Cf. Federal Foreign Office, "Namibia", [http://auswaertiges-amt.de/DE/Aussenpolitik/Laender/Laenderinfos/Namibia/Bilateral\\_node.html](http://auswaertiges-amt.de/DE/Aussenpolitik/Laender/Laenderinfos/Namibia/Bilateral_node.html) (accessed 4 May 2014).

respective country. But Angola was hampered in its development by the civil war between UNITA and the MPLA, which exacted a huge toll of lives in the period following the country's independence from Portugal in 1975.<sup>35</sup> It was only after the end of this conflict in 2002 – after the UNITA leader Jonas Savimbi was killed – that the country, which had suffered large-scale destruction, began to make great strides in its recovery. The catalyst of economic growth is no doubt the country's seemingly inexhaustible wealth of natural resources.

### Angola's Economic Force

Angola is the second-largest economy among the states of the Southern African Development Community (SADC), whose influence is increasing due to its economic and military potential. According to Human Rights Watch, this is one of the reasons why Angola is leading or in overall charge of numerous AU missions.<sup>36</sup> To date, only

**While Angola ranks slightly above average among the countries in Southern Africa with a per capita income of 5,930 U.S. dollars, two-thirds of the people live below the poverty line of two U.S. dollars a day.**

a small portion of the population has been able to benefit from the numerous natural resources – oil, diamonds, minerals, as well as coffee and spices. Most Angolans live in precarious circumstances. As in Namibia, all mineral resources are state property, and the same applies to land. While Angola ranks slightly above average among the countries in Southern Africa with a per capita income of 5,930 U.S. dollars, two-thirds of the people live below the poverty line of two U.S. dollars a day. An abundance of the population are said to be excluded from the labour market. The publicly accessible tertiary education sector does not offer an adequate number of slots at public universities.<sup>37</sup>

It is said that while the country received 13 billion U.S. dollars of foreign direct investments in 2009, one of the highest rates among the African countries, there is still

35 | Cf. Hidipo Hamuntenya, "Namibia and Angola: Analysis of a symbiotic relationship", in: Anton Bösl, Andre Du Pisani and Dennis U Zaire (eds.), *Namibia's Foreign Relations*, Windhoek, John Meinert Printing, 2014, 81.

36 | Cf. Human Rights Watch, "Angola", *World Report 2014*, 3, <http://hrw.org/world-report/2014/country-chapters/angola> (accessed 4 May 2014).

37 | Cf. p. 33, 18.  
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widespread poverty, a concentration of economic power among a small group of influential politicians and military personnel, as well as a high level of corruption.<sup>38</sup> “In the Doing Business Index of the World Bank, the country was ranked 179<sup>th</sup> out of 189, with a particularly bad ranking in the ‘Enforcing Contracts’ category. Ranked 153<sup>rd</sup> out of 175, Angola does not fare well in the 2013 Corruption Perceptions Index of Transparency International either.”<sup>39</sup> The poverty rate (taking two U.S. dollars a day as a threshold) is at 67.4 per cent,<sup>40</sup> in spite of the abundance of oil, which is deemed to be virtually inexhaustible, and Angola being the second-largest oil producer in Africa behind Nigeria. According to recent press reports, crude oil production rose from 800,000 barrels a day in 2003 to over two million barrels a day in 2008 and is still at 1.8 million barrels a day in 2014.<sup>41</sup> “Angola’s political economy is dominated by two holdings representing the interests of the state in raw material extraction, namely the oil company Sociedade Nacional de Combustiveis (SONANGOL) and the diamond company Empres Nacional de Diamantes de Angola (ENDIAMA). The oil sector alone accounts for 95 per cent of exports, approximately 80 per cent of state revenues and 55 per cent of GDP.”<sup>42</sup> The state further secures its interests by holding a stake of at least 51 per cent in all oil producing companies via the state-owned SONANGOL. Presumably, this also applies to the French company Total, which accounts for some 30 per cent of oil production in Angola. Today, France is the third-largest investor in Angola, although relations between Luanda and Paris have cooled since a scandal involving the illegal arms trade in the 1990s.<sup>43</sup> The North-American corporation Texaco and the British-Dutch Shell and MobilOil dominated oil

**Crude oil production rose from 800,000 barrels a day in 2003 to over two million barrels a day in 2008 and is still at 1.8 million barrels a day in 2014.**

38 | Cf. Hamuntenya, n. 35, 104.

39 | Inge Hackenbroch, “Aufbruch im Barrel-Paradies Angola”, *Germany Trade and Invest*, 5 May 2014, <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=1005586.html> (accessed 27 Jun 2014).

40 | N. 33, 2.

41 | Cf. “Angolan Leader visits France after years of frosty ties”, *Global Post*, 29 Apr 2014, <http://globalpost.com/dispatch/news/afp/140429/angolan-leader-visits-france-after-years-frosty-ties> (accessed 27 Jun 2014).

42 | Peter Meyns, *Angola: Politische Kurzanalyse (PÖK)*, Duisburg University, 2012, 5 et seq.

43 | Cf. n. 41.

production in Angola for years in the early days.<sup>44</sup> Through exports to China, Russia and the USA alone, over 48 billion euros were invested in Angola in 2012, and thanks to the oil, the country has experienced annual economic growth rates up to and above ten per cent over the last ten years. Today Angola's GDP is the fifth-biggest in Africa,<sup>45</sup> which may explain the temporary assignment of central negotiating positions within the AU.



A tank ship of the state-owned oil company SONANGOL: Assumingly, the state holds 51 per cent of the company to preserve its interests. | Source: Peter Kaminski, flickr ©.

### **Impact of the Oil Boom on the Angolan Population**

According to Human Rights Watch, most Angolans live in informal settlements without legal protection. Angola's laws neither adequately protect people from forced eviction nor enshrine the right to adequate housing.<sup>46</sup> The hope for better living conditions drives increasing numbers of people from rural areas into the outskirts of urban centers, most notably the capital Luanda, whose population has swelled to five million – i.e. one quarter of the entire population. Furthermore, strategic land grabbing by the

44 | Cf. Manuel Ennes Ferreira, "Realeconomie e Realpolitik nos recursos Naturais Em Angola", *Relações Internacionais*, Jun 2005, 74.

45 | Cf. "Still much too oily. Angola badly needs to diversify its one-dimensional economy", *The Economist*, 12 Apr 2014, <http://www.economist.com/news/middle-east-and-africa/21600693-angola-badly-needs-diversify-its-one-dimensional-economy-still-much-too-oily> (accessed 27 Jun 2014).

46 | Cf. p. 36.  
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government and the military to secure access to resources drives ever-increasing numbers of people into highly sub-standard living conditions. This year will be the first time a countrywide census is being held, which could become the basis for a more comprehensive policy approach by the government in Luanda. To date, there is neither a coherent tax system nor a system of levies that could form the basis for developing a viable civil society. While oil accounts for 60 per cent of GDP and 95 per cent of exports in Angola according to the 2014 BTI, the gulf between rich and poor is widening. Large numbers of the population in Luanda are living in townships without access to electricity, drinking water or a sewage system, and social security systems only exist in a rudimentary form. There are neither state systems for preventative health-care or for combating unemployment, nor is there a state old-age benefit system such as that in Namibia. Only a few state-owned companies such as the oil producer SONANGOL offer their employees any social provision. In addition, the companies in the oil industry predominantly employ foreigners.<sup>47</sup>

**To date, there is neither a coherent tax system nor a system of levies that could form the basis for developing a viable civil society.**

This is a disturbing picture of the current state of affairs considering the wealth in mineral resources, which is benefiting only a minority – a result of the activities of the ruling elites, which is still being accepted without protest in most countries of Southern Africa. However, the proliferation of the new social media will encourage the desire for participation, particularly among young people with an education. There are initial indications of this, but the state is either ignoring or making efforts to suppress them. Added to this is the fact that the dominance of oil and the continuing lack of economic diversification are having a negative impact. Falling oil market prices will not fail to affect Angola's growth rate in the future. Back in 2008, experts were already warning about oil revenues declining drastically by 2025.<sup>48</sup> That scenario is slowly but surely approaching reality. Thanks to fracking, the USA will export more oil than it imports from OPEC for the first time in 2014, which cannot fail to have an impact on the second-largest oil producer in Africa. If that comes to pass,

47 | Cf. n. 33, 23.

48 | Cf. Augusta Conchiglia, "Reiches Land mit armen Leuten",

*Afrika Süd*, Mar 2008, 27.

Angola's dependence on Chinese credits worth billions to finance its oil production is likely to develop into a further disadvantage to the country's economy.<sup>49</sup>



Street life in Luanda: Hoping for better living conditions, more and more people from the rural areas move to the outskirts of the urban centers. | Source: Moisés.on, flickr ©📷.

### Conclusion on Angola

The rather contrary aspects of Angola's social and particularly economic situation described above were meant to illustrate the fact that resource wealth alone cannot guarantee a prospering economy or the population's participation in it. On the contrary, despite significant progress in terms of the diversification of an oil-dependent economy, the gap between a small elite of very rich people and an urban and rural population sliding further into poverty is growing steadily.<sup>50</sup> Widespread corruption and bribery in all spheres of life are making progress more difficult. The sudden rapprochement with Western partner countries such as France appears to indicate that dependence on oil is only a matter of time.<sup>51</sup> Visits to Angola during the last two months by German Foreign Minister Steinmeier, U.S. Secretary of State Kerry and the Chinese head of government Xi suggest the country is redefining its role within the world and within Africa. The increasing feeling of uncertainty about the future of the raw materials business indicates the

49 | Cf. Franz Nestler, "Die schöne neue Ölwelt von Saudi-Amerika", *Frankfurter Allgemeine Zeitung*, 15 Apr 2014.

50 | Cf. n. 33, 3.

51 | Cf. n. 41.  
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need for a change of course in domestic politics in Angola. Sectors such as banking, telecommunications, raw materials processing and the food industry are growing and creating new jobs less dependent on oil. Living costs for rents and food in Luanda, probably the most expensive city in the world next to Tokyo and London, are, in fact, slowly coming down.<sup>52</sup> Whether this is a first sign of the end to the raw materials boom in Angola remains to be seen. One thing is certain: competition in the African oil market is on the increase.

### **OIL IN UGANDA: PROSPERITY FOR ALL OR WEALTH FOR THE FEW?**

Another state besides Namibia and many other countries in Southern Africa where new oil exploration is taking place is Uganda. The foreign oil industry there announced it would soon be producing 1.7 million barrels a day and create 100,000 to 150,000 new jobs in the industry.<sup>53</sup> Like many other African countries, Uganda is also remarkably rich in natural resources. How to handle this potential has become the focus of attention in a debate within society, which became more intense when oil was discovered several years ago. How can one avoid making mistakes in raw materials extraction and make effective use of the opportunities from the beginning to make sure the resource wealth will benefit not the pockets of a few but the common good?

#### **Learning from Mistakes**

Uganda is aware of the dangers and wants to do a better job. The country is far from being a raw materials economy like Angola. In spite of notable progress in the private and services sector, for instance, the agricultural economy is still dominant. Some 70 per cent of the population work in this sector, which contributes approximately one quarter of the country's GDP. Oil exploration is in the very early stages. Apart from testing and research, not one drop of oil has flown so far. Although the oil reserves in the west of the country near the border to the DR Congo, which had long been suspected, were

**Oil exploration is in the very early stages. Apart from testing and research, not one drop of oil has flown so far. Problems in terms of infrastructure and technology explain the delay.**

52 | Cf. n. 45.

53 | Cf. *New Era*, 2 May 2014, 15.

confirmed in 2005/2006, the start of production is dragging on. Envisioned is now 2016, and it is likely full production capacities will not be reached until 2022. There are various reasons for the delays. These are in part due to challenges in terms of infrastructure (the majority of the reserves are not located on a coastline but in the depths of Lake Albert in a remote region where the entire infrastructure has yet to be developed). The extraction also faces massive technical difficulties. The oil is highly viscous and will need to be transported in heated pipelines, which are expensive and will need to be constructed in the first place. The construction of a refinery is similarly complex and costly.<sup>54</sup>

For a long time, one of the main issues was no legal regulatory framework had been developed. Although the government in Kampala presented a National Oil and Gas Policy (NOGP), which provided guidelines for the production modalities and revenue distribution, this did not constitute the definite legal framework. In the meantime, expectations and impatience have risen, and the population is increasingly calling for the government to follow Ghana's example, for instance. While oil there was discovered later than in Uganda, namely in 2008, production began as early as 2011. But what appears to be a disadvantage may potentially turn out for the best. Uganda seems to have taken the time to create the best possible conditions for a sustainable resource production intended to benefit the common good. This requires decisions to be made on the basis of reliable information and in line with best-practice models as well as the experiences of others to avoid falling into the familiar traps. Experts and politicians publicly agree the correct economic strategies must be developed and implemented in good time to maximise oil production and the hoped-for benefits it entails and to avoid negative impacts.

54 | The construction of a local refinery is now underway, which will be more profitable to Uganda and more beneficial to the domestic economy than the export of crude oil. However, for cost reasons, the refinery will be built on a smaller scale than originally envisaged. Plans do exist for it to be complemented by the construction of a pipeline for export to Kenya. This strategy will benefit the international oil companies operating in Uganda much more than originally intended.



Uganda has plenty of natural resources: In order to distribute the revenues from the extraction of commodities such as copper or cobalt, like here at the Kilembe Mine in the country's southwest, a legal framework is necessary. | Source: Gunnar Ries, flickr ©📷📷.

### **Economic Policy Strategies**

Uganda is seeking guidance from Norway amongst others in this area, and it plans to adopt that country's fund model, a model that is intended to benefit future generations. This Norwegian Petroleum Fund is managed by an asset manager (who is advised by an ethics officer), independent from political interference. The fund manager decides how the export revenues are to be invested. The only fixed stipulation is that 60 per cent are to be invested in bonds and 40 per cent in (ethically unproblematic) shares. In its NOGP, Uganda has expressed its intention to set up such an independently managed "Generation Fund" with defined investment criteria. Further principles include: transparent flow of funds through external monitoring mechanisms (for instance via a body corresponding to the Ghanaian Public Interest and Accountability Committee), distribution of profits based on criteria of sustainable development and the common good, as well as the involvement of and a clear role for civil society and the media, including the associated public accountability. The regulations set out in the NOGP appear exemplary, and the government seems to have done its homework. The entire document is devoted to serving the higher goal, namely "to use the country's oil and gas resources to contribute to early achievement of poverty eradication and create lasting value to society".

Even issues of environmental protection (some of the oil reserves are located in a national park) and human rights are reflected in the policy. It calls upon oil companies to adhere to international standards and to invest in further training for the local population, thus creating new jobs.



Not only human habitat is endangered, if the extraction of resources does not follow environmental standards. Many of Uganda's national parks such as the Murchison Falls National Park north-east of Lake Albert, are located near potential oilfields. | Source: Michell Zappa, flickr ©①②.

However, a gap soon became apparent between theory and implementation, and the realisation of the NOGP was under threat from the very beginning because of established practices. This was reflected in press reports, which involved headlines such as: "Dirty deals", "Traacherous Dream", "The Hunt for Oil on Lake Albert" and "Uganda Must Be Protected from its Oil". The main problem is endemic corruption. Uganda is one of the most corrupt countries in the world, ranked 140<sup>th</sup> out of 177 in the corruption index of Transparency International for 2013. And the oil wealth is likely to elicit further greed among the powerful and even exacerbate corruption. In 2011, for instance, three of the country's most powerful politicians were accused of having banked a total of 100 million U.S. dollars in bribes from the British oil company Tullow Oil and the Italian oil company ENI. Foreign Minister Sam Kutesa, Prime Minister Amama Mbabazi and former Energy Minister (and subsequent Interior Minister) Hillary Onek are said to have assisted the oil companies in obtaining licencing contracts and extraction rights and performed lobbying activities for that purpose.

However, they still occupy high-ranking political offices today. The findings of a specially established investigation committee came to nothing. Its final report complains about a lack of information and cooperation, which is why the investigations did not show any results.

The way the contracts between the oil companies and the government originated is just one of the numerous examples of the lack of transparency. Although the NOGP demands openness in this area, the government refused to publish the so-called Production Sharing Agreements (PSAs) for years. It did not even inform Parliament. Only when “leaked” versions were making the rounds were they finally published. Although there is now legislation in force committing the government to disclose its dealings, it is still trying to keep a veil over its activities. If Uganda were to join international transparency initiatives, as has been announced repeatedly, this might counteract the government’s tendency to secrecy, but this has yet to take place. One instrument that has proved to be promising in terms of creating transparency is the Extractive Industries Transparency Initiative (EITI).<sup>55</sup> This initiative to ensure general standards of transparency and accountability in resource extraction pursues the disclosure of contracts above all. Without details on the agreed payments, there is no proper basis for facilitating public monitoring and for ways of curbing corruption. Although international donors, including the World Bank and Norway, Uganda’s bilateral donors under the DC heading of “oil management”, are demanding Uganda join the EITI, this has not happened to date. Consequently, assurances by the Ugandan government that it would join the initiative, as those recently voiced by Energy Minister Irene Muloni in 2014 on the occasion of the EITI conference in Kampala, remain purely lip service. Mutual monitoring – or even just communication – of governments, companies, investors, civil society and international organisations to allow monitoring of the payments from the oil business is still lacking.

Despite all this, some progress has been made in defining the legal framework that builds on the NOGP of 2012. After years of wrangling and intensive debates in Parliament,

55 | Cf. Extractive Industries Transparency Initiative (EITI), <http://eiti.org> (accessed 27 Jun 2014).  
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corruption scandals and dashed hopes of the population, two laws have now been ratified, and a third is in the drafting stage. The first law, The Petroleum Exploration, Development and Production Act (adopted by Parliament on 7 December 2012), regulates oil production itself, the second one (The Petroleum Refining, Gas Processing and Conversion Act of February 2013) subsequent processing. The bill for the third law (Public Finance Bill of December 2013) deals with the distribution of the oil revenues. Although this invalidates the main accusation by the population, but also particularly by the oil companies, progress on production is slow because the legal framework is not in place, the results have been rather unsatisfactory. In principle, the NOGP provides a solid basis for the content of the respective legislation with its goals of poverty reduction and value creation as well as the demand for “high standards of transparency and accountability in licensing, procurement, exploration, development and production operations as well as management of revenues from oil and gas”. But there are numerous shortcomings. The Mining Act of 2012, for instance, provided for the creation of a “super-ministry” for oil-related matters with sole authority for granting or refusing extraction licences. The ministry is also conducting the negotiations over oil contracts behind closed doors, which makes transparency more difficult and facilitates corruption. One of Parliament’s main demands, namely for its participation in these decisions, has thereby been explicitly excluded.

**The Mining Act of 2012 provided for the creation of a “super-ministry” for oil-related matters with sole authority for granting or refusing extraction licences.**

Furthermore, while the second law envisages the creation of an independent Oversight and Regulation Commission, the government intends to define and fill the posts at the top management level, which basically means the authority loses its independence. Critical voices described this as similar to “handing over an ATM (cash) machine to the President”.<sup>56</sup> Similarly, the bill for the third law contains weaknesses and loopholes. Although it foresees the establishment of the Generation Fund, covers arrangements for the distribution of the revenues and also mentions

56 | Cf. Elias Biryabarema, “Ugandan lawmakers pass oil bill, worry about corruption”, Reuters, 7 Dec 2012, <http://mobile.reuters.com/article/worldNews/idUSBRE8B60ZP20121207> (accessed 27 Jun 2014).

measures to reform the public finance sector, it is silent on penalties for the misuse of public funds and does not spell out any concrete sanctions. As a whole, the bill would thereby concentrate too much decision-making power in the executive, excluding parliamentary participation. The separate account at the Bank of Uganda, into which the payments from the oil companies to the government were supposed to flow (this also as a result of the advice from Norway), has still not been set up. At the same time, the government is reluctant to disclose the flows of payments from the oil sector; the precise figures are still not in the public domain. It is very likely, the purchase of Russian fighter jets in April 2011, for example, was funded by revenues from the oil sector.

### **Distribution Conflicts**

Another issue causing similar disagreements is the regional distribution of revenues and participation by local communities and districts. The government considers oil a “national resource”, while local communities in the proposed extraction areas are demanding a share of their own. They are also hoping for prosperity and growth, particularly through the development of infrastructure and job creation. However, they also fear the negative effects such as the loss of land rights, an excessive influx of external workers, and the destructive impact on the environment.<sup>57</sup> Some of these fears have already been realised. There have been ethnic tensions and distribution struggles, particularly in the Kingdom of Bunyoro in Western Uganda. Two of its four districts to the east of Lake Albert contain oil reserves. In 2009, the King invoked a colonial agreement dating back to 1955, in which the British administration had guaranteed the Kingdom part of the revenues from the extraction of natural resources.<sup>58</sup> As traditional institutions only play a cultural and representative role in Uganda and do not exercise public administration functions, they were not given any consideration in the NOGP.

**Ethnic tensions and distribution struggles have particularly flared up in the Kingdom of Bunyoro in Western Uganda. Two of its four districts to the east of Lake Albert contain oil reserves.**

57 | Cf. Peter Girke and Mathias Kamp, “Ölförderung in Uganda – Strategien, Chancen und Risiken”, KAS Country Report, 09/2009, 8, <http://kas.de/uganda/de/publications/17426> (accessed 27 Jun 2014); *Daily Monitor*, 18 Mar 2009.

58 | Cf. *New Vision*, 18 Apr 2009.

This has aggravated the already tense situation even further. Expectations of a lucrative oil business have fuelled old ethnic resentments between the indigenous population and incoming minorities, mainly in relation to land rights issues and political dominance. A leaked internal memo from the President, in which he considers restricting the political rights of the non-indigenous population in Bunyoro, has added fuel to the fire.<sup>59</sup> These impending ethnic tensions and distribution struggles are threatening the country's internal stability. Although the West-Ugandan

**Disputes about land use, evictions and the rural exodus as well as inadequate compensation by oil companies are in full swing and jeopardise stability at home.**

Kingdom has since distanced itself from its demand to receive 12.5 per cent of the oil revenues (and seeing the Public Finance Bill which has now been published classifies the kingdoms as equal to the districts and promises them seven per cent of the revenues), the struggle for land rights is ongoing. Disputes about land use, evictions and the rural exodus as well as inadequate compensation by oil companies are in full swing. The situation in the traditional employment sectors, which are under threat of collapse, is similarly concerning. Sectors particularly affected include fishing on Lake Albert as well as agriculture, but also salt mining in the Kibiro salt mine, for instance. These issues involve not only economic repercussions but also the loss of indigenous identity and traditional ways of life. There have also been reports on human rights violations and breaches of law in the area.<sup>60</sup> Cultural differences and disputes over places of cultural significance are further adding to the debate. The Waraga area in the Hoima district, for example, is a place of cultural significance for the Banyoro, as it includes the burial place of an important king of the 11<sup>th</sup> century. However, it is located in the oil production territory of Tullow Oil, and access to the site has since been restricted or prohibited. This has elicited protests from the followers of the Kingdom, who see their

59 | Cf. "[Ugnet] Fw: Wikileaks: M7 MIXES TOXIC BREW OF ETHNICITY AND OIL IN W. UGANDA", 12 Oct 2011, <http://mail-archive.com/ugandanet@kym.net/msg27292.html> (accessed 27 Jun 2014); Girke and Kamp, n. 57, 8.

60 | Cf. Francis Mugerwa, "Oil discovery changes land use in Bunyoro", *Daily Monitor*, 12 Sep 2013, <http://www.monitor.co.ug/SpecialReports/Oil-discovery-changes-land-use-in-Bunyoro/-/688342/1988974/-/ar4iuf/-/index.html> (accessed 27 Jun 2014).

cultural heritage jeopardised as they are being obstructed in conducting their traditional rituals.<sup>61</sup>



Agriculture prevails: About 70 per cent of the population pursue agricultural activities, thus contributing almost 25 per cent to Uganda's GDP. | Source: Neil Palmer, Centro Internacional de Agricultura Tropical (CIAT) ©①②.

The potential for conflict is not only rising within Ugandan society but also beyond the country's borders. Disputes with the neighbouring country of the DR Congo, which have been simmering for some time due to suspected as well as actual mutual interference through support for rebel groups in the respective countries, have repeatedly brought the two states to the brink of war. The oil reserves are exacerbating the situation, because some of them are located on both sides of the Ugandan-Congolese border underneath Lake Albert, the precise course of which is still in dispute. Although the neighbours have come closer on some points (for instance with a joint approach against the Lord Resistance Army (LRA) and a cooperation agreement on oil extraction in March 2009), new provocations are still flaring up (for instance in the dispute over the small island of Rukwanzi, which is divided into a Ugandan and a Congolese part and serves as a basis for oil exploration teams).<sup>62</sup> The joint study intended to finalise the demarcation of the

61 | Cf. "Bunyoro Kingdom Demands Unlimited Access to Waraga Oil Field", *Uganda Radio Network*, 12 Feb 2013, <http://uganda.radionetwerk.com/a/story.php?s=58367> (accessed 27 Jun 2014).

62 | Cf. Girke and Kamp, n. 57, 10.

border is still awaiting completion; arbitrary definitions – and therefore future conflicts – are pre-programmed.

### **Consequences for the Environment and Natural Habitats**

However, not only human habitats are endangered, biodiversity is as well. Ten of Uganda's 22 national parks and wildlife sanctuaries are located in oil production areas. Besides numerous NGOs, the responsible Ugandan National Environment Management Authority (NEMA) has also confirmed the environmental problems and negative consequences of the drilling activities for some time.<sup>63</sup> The government in Kampala has already spelt out the dangers in the NOGP. It promises, for instance, to ensure the extraction activities should be conducted in a manner to "protect and preserve" the environment and biodiversity. It also proposes various plans, including strategies to disseminate the institutional framework for environmental protection, to perform "capacity building" with the monitoring officer, to commit the oil companies to engage in environmental protection and to "leave the

**Environmental risks: There are neither plans for a systematic recording of environmental violations, nor any legal tools to apply sanctions to enforce compliance by the oil companies.**

sites as they were found".<sup>64</sup> However, there is a lack of both technical and HR resources to put the proposals into practice. There are neither plans for a systematic recording of environmental violations, nor any legal tools or a willingness to actually apply sanctions in order to enforce compliance by the oil companies. All in all, one gets the impression the development of oil extraction will not succeed in bringing many benefits. Instead, numerous people's livelihoods may be destroyed, not even to mention long-term ecological damage and the potential for conflict. Even before the oil has begun to flow, the "resource curse" appears to have already set in with respect to both the political and economic impact. This is reflected in increasing levels of bribery and corruption as well as a feverish

63 | Cf. Will Connors and Nicholas Bariyo, "Uganda Seeks to Reconcile Oil, Nature", *The Wall Street Journal*, 29 Apr 2010, <http://wsj.com/news/articles/SB10001424052748704464704575208020866845024> (accessed 27 Jun 2014).

64 | Cf. Republic of Uganda, Ministry of Energy and Mineral Development, Petroleum Exploration and Production Department, "Environment Management in Uganda's Oil and Gas Sector", <http://www.petroleum.go.ug/page.php?k=curnews&id=11> (accessed 27 Jun 2014).

mood among a population that is affected by uncertainty and estranged from the government. People are already convinced they will lose out.

### **Uganda in the Raw Materials Trap? Political Will Is Essential**

It is currently difficult to gauge which direction the development will take. Uganda is at a crossroads. Rather than lip service, it will take actual implementation of political guidelines to determine whether the impact of resource wealth will be positive or negative. It is once again evident that legislation alone is not sufficient. Countries rich in natural resources, where there has been a positive development, demonstrably share some of the following prerequisites: a desire for stability and growth, highly skilled technical experts and advisors, a strong social community to involve the population and moderate the political debate, as well as efforts to establish effective, legally binding sanctioning mechanisms to create transparency where public utilisation of funds and the associated prioritisation are concerned.

At first glance, conditions do not look too bad in Uganda. After many years of civil war and internal conflicts, the desire for peace and development is there. The public administration – a legacy from the British colonial era – is relatively effective, and there are facilities to educate experts for the oil industry as well (appropriate training and university courses have been set up). Uganda has a multi-party system with a growing, vibrant civil society and dedicated media, which are following the debate about how to deal with the oil with a critical eye.

The current parliament has also gained in clout and is showing a far greater self-assurance than its predecessor. At the same time, the country is split along ethnic and regional lines, corruption is rife, there are insufficient funds to finance the above-mentioned courses (or the funds are not being invested appropriately) and there is a dearth of reliable facts and figures. The government is taking most decisions in back rooms without bringing the relevant interest groups or stakeholders together. There are many individual discussions – but no differentiated public discourse examining the subject comprehensively and

**The government is taking most decisions in back rooms without bringing the relevant interest groups or stakeholders together.**

objectively. The necessary flow of information is not forthcoming, which encourages rumours and speculation and fuels mistrust between the government and the population as well as the private sector. The monitoring bodies that have been set up or exist (such as the above-mentioned oil administration authority as well as the media and Parliament) need information to function and therefore depend on the goodwill of the executive, which seems all-powerful.

The greatest concerns are not so much about the inadequate flow of information or the weaknesses of the NOGP regulatory framework but about the implementation of the latter. When various other countries failed to reap the benefit from their opportunities, it was not because they had no rules or information, but because they failed to apply them. Uganda demonstrates that any plan is only as good as its implementation. President Yoweri Museveni has put oil production at the top of his personal agenda, as indicated by the fact that he has granted his oil ministry – and therefore himself – the right of co-determination in

**All best practice models, such as the Norwegian Generation Fund, remain without impact if the political will to apply them does not exist or cannot be enforced.**

all matters. The executive is trying to exert its influence. What is there to stop them? Why should authoritarian governments wish to relinquish their hold on raw materials and thereby their power? How can corruption be

fought, if those who are meant to conduct this fight are themselves corrupt and benefit from it? All best practice models, such as the Norwegian Generation Fund, remain without impact if the political will to apply them does not exist or cannot be enforced. Nor will transparency mean anything, if the disclosure of ills does not result in changes in behaviour and procedures. Also required are the rule of law and sanctioning mechanisms, not only to monitor the implementation but also to demand it and to at least be able to enforce the political will if it is not there in the first place. Resource wealth is neither a curse nor a blessing. The considered utilisation of a resource such as oil does, however, require particularly intelligent policies and institutional circumspection. It is poor governance that brings this wealth into disrepute. Uganda might prove another case in point.

## RESOURCE WEALTH IN TANZANIA – RAW MATERIAL EXPORTS AS ENGINE FOR DEVELOPMENT?

Like many of its neighbouring states, Tanzania is also rich in mineral resources. The country has large gold and diamond deposits, and it is the only country to mine commercially for the rare precious stone tanzanite on a large scale. Added to this are coal, nickel and rare earths. In recent years, large natural gas reserves have been discovered, particularly off the coast in the south, and there are also indications of oil deposits. But it is not yet clear whether these are suitable for commercially viable extraction. Tanzania is, however, about to begin the commercial extraction of large uranium deposits.

### Gold Mining – Missed Opportunities and Conflicts

The mining sector is currently dominated by nine large mines, six gold mines and one mine each for diamonds, coal and tanzanite. But it is gold mining that plays the main role, accounting for 90 per cent of Tanzanian mineral exports, for over 40 per cent of goods exports and for 3.5 per cent of Tanzanian GDP (2012).<sup>65</sup> According to these figures, Tanzania is the fourth largest gold producer in Africa behind Ghana, South Africa and Mali. In 2012, gold exports were worth 2.2 billion U.S. dollars. However, state revenues from the gold mining only amounted to approximately 360 million U.S. dollars, which at least represented an improvement on the previous year by almost 60 per cent.<sup>66</sup>

The discrepancies between the profits of the mining groups, the revenues of the Tanzanian state and the participation by the local population have been subject of heated discussions for years. As far back as 2007/2008, a delegation of Christian and Muslim dignitaries visited the gold mining area in the northwest of Tanzania, having been alerted by cries for help from the region. There had been reports of massive environmental destruction, land grabbing as well as displacement of local people and small-scale hill farmers in the mining territory of a large international mining group. With the assistance

**The discrepancies between the profits of the mining groups, the revenues of the Tanzanian state and the participation by the local population have been subject of heated discussions for years.**

65 | Cf. EITI, "Tanzania", <http://eiti.org/Tanzania> (accessed 14 May 2014); Policy Forum, *Tanzania Governance Report 2012: Transparency with Impunity*, Dar es Salaam, 2013, 48 et seq.

66 | Cf. Policy Forum, n. 65, 49.

of experts, a report was drawn up and published soon afterwards under the title “A Golden Opportunity: How Tanzania is Failing to Benefit from Gold Mining”, initiating an intensive debate in the country.



The extraction of gold: Tanzania’s people still do not benefit from the country’s gold resources which are primarily exploited by transnational corporations. | Source: John Louis, flickr ©📷.

The report stated that the Tanzanian population was not benefiting from the gold boom, as the legislation provides strong tax incentives to the multinational groups. According to the report, Tanzania exported gold worth 2.5 billion U.S. dollars from 2003 to 2008, while the government only received 21.7 million U.S. dollars per year from the groups (less than ten per cent a year) from taxes and levies. The report further estimated due to the low levies, tax exemptions and tax evasion, the government had missed out on at least 400 million U.S. dollars of revenue. In addition, some 400,000 small-scale hill farmers were displaced, losing their livelihood in the process.<sup>67</sup> The report identified three serious problems in gold mining: the very low tax revenues for the state, the lack of state monitoring and oversight and the closely associated corruption, and finally, the fact that the local population in the mining area not only had failed to benefit in many cases, but had even become poorer.<sup>68</sup>

67 | Mark Curtis and Tundu Liss, “A golden opportunity: How Tanzania is failing to benefit from gold mining”, *Africa Files*, 18 Oct 2008, <http://africafiles.org/article.asp?ID=19218> (accessed 27 Jun 2014).

68 | Cf. *ibid.*  
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In response to public pressure, the Tanzanian government modified the investor-friendly legal framework from the 1990s. The new Mining Act (2010), however, did not result in the hoped-for substantial increase in revenues, because existing contracts usually extended over the entire extraction period of a mine and could not be renegotiated. In addition, the government was still lacking the technical capacity to oversee and monitor the quantities actually extracted and the corresponding profits of the groups. An analysis of the six largest gold exporters compared to the tax revenues of the Tanzanian government puts the tax revenues at 6.1 per cent for 2009/2010 and at 9.8 per cent for the following year.<sup>69</sup> Even though the currently available figures for 2012 indicate a clear upward trend with respect to state revenues, the discussion remains heated.

There is also an ongoing conflict between the mining groups and the local population in the mining territory. The mining groups complain about illegal incursions into the mining areas, theft and vandalism. The population accuses the mining groups of environmental destruction as well as massive water and air pollution. One of the large gold mines run by African Barrick Gold in the North Mara Region is permanently in a virtual state of emergency. Security services and the police are involved in regular clashes with illegal intruders. The local small-scale hill farmers claim their right to the land, while the mining groups refer to government contracts, which grant them sole mining rights. There have been several shootouts with fatal consequences. Government representatives frequently blame the ills on the investors without admitting their own failure to act appropriately, for instance when concluding contracts or when resolving land issues. The mining groups, for their part, complain about the government being fundamentally hostile to investors and about the tax authorities arbitrarily determining taxes and levies. However, the authorities do not have the required monitoring mechanisms at their disposal either.

69 | BDO East Africa, *Tanzania Extractive Industries Transparency Initiative*, Third Reconciliation Report, Jun 2013, 6.  
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Mining in the North Mara Region: Due to conflicting interests of local farmers, who claim land property rights, the government and extraction companies, the region often witnesses unrest. | Source: Plenty's Paradox, flickr ©①②.

It appears EITI membership at least is helping to make the entire issue of the equitable distribution of the profits from gold mining more transparent. Since December 2012, Tanzania has been fulfilling all EITI standards and is thereby one of currently 27 countries worldwide who can boast "EITI compliant" status. The revenues the government is achieving from mining as well as the taxes and levies paid by the mining groups are therefore made transparent and reconciled in annual reports. While this is bringing some objectivity to the debate, many other problems persist, such as pollution, the issue of the land rights of the local population, a lack of jobs and inadequate social support for the population. Because even if the contribution the mining groups make to the Tanzanian national budget increases, this does not necessarily mean the government will reinvest these funds in social programs or in improved education and healthcare provision for the population.

### **Natural Gas Boom – New Opportunities for a Surge in Development?**

Large natural gas reserves have been discovered off the Tanzanian Coast in recent years (currently estimated at up to 47 billion cubic feet), which could make the country one of Africa's leading gas exporters in the near future. There is a great deal of interest from international investors. The energy groups, including Statoil and the BG Group, are

forging ahead with exploration activities and are planning the construction of a gas liquefaction plant in the south of the country (Mtwara). The Chinese government is further financing the construction of a 532 kilometer pipeline from Mtwara to Dar es Salaam, where the gas is then to be used partly for electricity generation and partly for export, with a soft loan of 1.2 billion (!)

**The successful gas explorations have caused high expectations among the population in the impoverished south of Tanzania, which are being fuelled by the government.**

U.S. dollars. The news of the increasingly successful gas explorations have caused high expectations among the population in the impoverished south of Tanzania, which are being fuelled by the government, in part intentionally.

The news of the impending commercialisation of the gas reserves, and particularly the construction of the pipeline to Dar es Salaam, initially led to peaceful mass protests by the local population in 2012 and 2013, who demanded an equitable distribution of the expected revenues and a stronger consideration of the interests of local citizens. The demonstrators' main demand was for previously promised development projects in the region to be implemented before the start of the pipeline construction. Local leaders and propagandists accused the government of wanting to extract the gas and transport it to Dar es Salaam without adequately sharing the benefits with the region, which had suffered neglect for decades.

Confirmation of the pipeline construction by Minister Sospeter Muhongo in a speech in the Tanzanian parliament in May 2013 – it was telling that the radio transmission of the parliamentary debate was interrupted in the Mtwara region at this point – resulted in unrest. Instead of giving consideration to the arguments of the protest movement and involving critics in the communication and decision-making processes, the government decided to have the police and the military quash the demonstrations by force. There were massive human rights violations, deaths and injuries. Human rights organisations also documented cases of looting, rape, abduction and torture by the security forces. Police duties were subsequently performed by the military, which equates to an unofficial state of emergency. Independent journalists are still being obstructed in their work and cannot report from the region freely. In July 2013, leading politicians from the opposition party Chama Cha

Wananchi (Civic United Front, CUF), who intended to collect evidence of the human rights violations on the ground, were arrested by the military and subjected to serious physical abuse for days.<sup>70</sup> The national CUF chairman Ibrahim Lipumba documented the events in detail in an article in the country's largest English-language daily newspaper *The Citizen*, warning of the first signs of a "failing state" in Tanzania.<sup>71</sup> Although Lipumba has since also delivered his protest formally in a meeting with the Tanzanian President Jakaya Kikwete, investigations about the events came to nothing. Those responsible among the security forces were neither identified nor prosecuted.

The situation has since calmed down, but remains tense. The military presence prevents public protest and unrest. The construction of the pipeline from Mtwara to Dar es Salaam is proceeded according to plan and is expected to be completed within a few months. With support from the energy groups and the international community, the government is, in fact, now making efforts to address the concerns and criticisms of the population. It has initiated a dialogue with representatives from the religious communities and other civil society groups. In addition, tentative efforts are being made to set up vocational colleges and training courses to give local personnel the skills required in the natural gas sector. In April 2014, President Kikwete announced the legal basis for oil and gas extraction would be redrafted by the end of the year. The aim is to ensure a fair share for the population as well as an equitable partnership between the state and private investors. Whether it will prove possible to learn from the mistakes made with gold mining and reconcile the justified interests of international investors, the Tanzanian government and the local population in a transparent and fair process remains to be seen. Local entrepreneurs, who are currently feeling excluded and are demanding participation in the gas sector, will play an important role in this.

70 | Cf. "Shock of Mtwara torture", *The Citizen*, 20 Jul 2013, <http://www.thecitizen.co.tz/News/-/1840392/1920690/-/efte9qz/-/index.html> (accessed 27 Jun 2014).

71 | Cf. Ibrahim Lipumba, "INSIGHT: Symptoms of early stages of failed state now appears in our midst", *The Citizen*, 13 Jul 2013, <http://www.thecitizen.co.tz/Business/INSIGHT---Symptoms-of-early-stages-of-failed-state-now/-/1840414/1913460/-/8t8fgt/-/index.html> (accessed 27 Jun 2014).



The Government of Tanzania is facing criticism: The opposition party Civic United Front and its party leader Ibrahim Lipumba, here at a UNU-WIDER Conference in 2010, have documented human rights violations during protests against the construction of a natural gas pipeline. | Source: The United Nations University World Institute for Development Economics Research (UNU-WIDER) ©©.

### **Uranium Mining – a Very Risky Business**

In mid-2012, the UNESCO World Heritage Committee granted Tanzania's request to split off a small section of the Selous Game Reserve, which is classed as a World Heritage Site, to facilitate uranium extraction there. According to the Tanzanian NGO CESOPE, there are currently 46 Tanzanian and international companies conducting uranium exploration activities in the country.<sup>72</sup> Large uranium deposits have been discovered not only in the south but also in the country's interior close to the capital Dodoma (near Bahi), which the international mining groups wish to begin developing in the near future with the government having given its consent. Experts assume the volume of uranium ore deposits in the Bahi region alone amounts to 14 million tons. While investors and the government are pushing ahead with the process to grant extraction licences, environmental protection activists are warning about the devastating consequences of uranium mining.

72 | CESOPE advocates the population be properly informed and speaks out against commercial uranium mining being started up in Tanzania. Its director, Anthony Lyamunda, has already been put under pressure several times by the state authorities because of his critical engagement. Civil Education Is the Solution for Poverty and Environmental Management (CESOPE), <http://cesopetz.org> (accessed 15 May 2015). DR © 2014. Konrad Adenauer Stiftung e. V.

**Critics accuse the government of pushing ahead with uranium extraction projects in secret without keeping neither the local population nor Parliament informed about the plans.**

There has already been some water pollution as a result of the exploratory drilling in Bahi, and the local population has complained about damage to their health. The list of critics of the planned uranium mining is therefore long. The environmental activist and prominent opposition politician

Tund Lissu is complaining about the lack of a government information policy. He explained Tanzania has neither the technical nor the financial resources nor the expertise to deal with the aftermath of uranium mining.<sup>73</sup> Crit-

ics such as Lissu accuse the government of pushing ahead with uranium extraction projects in secret without keeping either the local population or Parliament informed about the plans and the state of development. Some critics even assume ore has already been extracted and sold for some time under the mantle of exploration. But the Tanzanian government appears to be determined to enter into the lucrative business of uranium extraction. The Energy Minister batted away all concerns and declared that the National Nuclear Regulatory Authority would ensure all international standards would be adhered to. The environmental and health risks were under control and appropriate safety precautions were being taken. According to local environmental activists and experts, however, even the exploratory drilling has caused considerable pollution of land, air and waterways due to a disregard for all safety standards. In addition, the negative experiences from gold mining do not suggest the authorities have the will or technical expertise to monitor strict guidelines and standards or to enforce them. Studies also indicate the economic benefit from uranium extraction and export can in no way justify the enormous risks and the costs involved.<sup>74</sup>

## Outlook

In the case of Tanzania, it is not yet possible to give a conclusive answer to the question about the extent to which the use of the natural resources can make a positive

73 | Quoted (in translation) from Ute Schaeffer, "Armes reiches Tansania", *Deutsche Welle*, 11 Nov 2011, <http://dw.de/p/12lt2> (accessed 15 May 2014).

74 | Cf. Howard Smith, Damas Mbogoro and Augustino Mwaki-pesile, *Economical and Ecological Research of Bahi Swamp. Final Report*, CESOPE, Dodoma, Dec 2010, <http://yumpu.com/en/document/view/9100754/economical-and-ecological-research-of-bahi-swamp> (accessed 27 Jun 2014).

contribution to the country's economic development. In any case, the way the government has dealt with the protests against the pipeline in Mtwara and its uncompromising stance towards the critics of uranium mining suggest it is not prepared to take the concerns and needs of the local population into consideration in the political decision-making process. In addition, there is a justifiable concern that the revenues from the raw materials sector will not benefit the general population but only a small social elite in the country. Rising state revenues do not necessarily mean social services will be developed and state investments in the education and healthcare sectors, for instance, will be increased. The budget draft presented to Parliament in May 2014 envisages 70 per cent of expenditure to go on running costs – the majority on salaries and wages. Consequently, the scope for investments in infrastructure, i.e. railways, roads, water and sewage systems as well as electricity networks, is relatively small. In the past, a large proportion of the national budget has been used to prop up a state bureaucracy that is inefficient but loyal to the party that has been in government for a long time.

**The budget draft presented in May 2014 envisages 70 per cent of expenditure to go on running costs. Consequently, the scope for investments in infrastructure is relatively small.**

The exploitation of the natural resources can only lead to developmental progress if the associated revenues and their utilisation are made transparent and discussed in the public arena. The EITI initiative is a step in the right direction. But it will also require stronger democratic monitoring mechanisms and institutions at the state level (parliament, audit office, anti-corruption authority, etc.) and at the civil society level as well as an informed population, which demands its rights in a peaceful and democratic manner. A democratic culture, the rule of law and good governance are prerequisites to the resource wealth in the country to be used to the benefit of the population at large. Another requisite is an intelligently crafted political framework that gives equal consideration to the interests of investors, the government and the local population. Besides ensuring fairly shared profits, clear environmental, health and safety standards must be developed, monitored and enforced. In this respect, Tanzania is still in the early stages, as gold mining and uranium exploration have shown. There is a

lack of expertise, technical capacities and political will to actually implement standards set forth in writing.

Nevertheless, there are some positive tendencies apparent, which provide some hope that past experiences may contribute to a positive learning curve. The recently initiated dialogue with civil society in Mtwara and the intensive public debate about the nature of a national gas policy indicate that mistakes made in gold mining will not be repeated during gas extraction. Advisors are recommending the government conduct these discussions proactively rather than merely responding to pressure from the opposition and from a civil society that is becoming increasingly more self-assured. However, in a country which has in practice been governed by the same party since its independence in 1961, this rethinking process will take some time to show forth results. Observers therefore assess the outlook for the Tanzanian raw materials sector and its repercussions for the country's development with a mixture of scepticism and optimism.

#### **CHALLENGES POSED BY RESOURCE WEALTH REMAIN**

In the medium to long term, the question of the resources and the industries depending on them in the countries of Sub-Saharan Africa will become one of the continent's central issues. A large number of current conflicts relate to their distribution, their protection and their benefit to the respective countries and their populations. These resources – be they oil in Angola and Uganda, uranium in Namibia, gold in Ghana, diamonds in Botswana or natural gas and precious stones in Tanzania – represent both opportunities and risks for Sub-Saharan Africa. Whether Africa will in fact become a continent of opportunities – as many maintain – or one of missed opportunities will ultimately depend on whether the governments will conduct themselves in a responsible, transparent and forward-looking manner in handling the existing raw materials and the revenues from them. Today, average annual growth rates for Africa are already well above five per cent. Population growth continues and other development challenges remain: fundamental problems such as hunger and poverty, widespread high unemployment particularly among the young, inadequate education systems and a lack of healthcare services. Pressure on

those exercising governmental power to act is increasing as people are asking what benefit raw materials actually bring to a country if profits bypass the great majority of the mostly poor population and flow into the pockets of a few influential people involved in the business or out of the country. The feeling of impotence or injustice where the distribution of resource profits is concerned is likely to increase rather than decrease, because, while people have become better informed through social media and the calls for transparency and participation have become louder, greater knowledge does not necessarily go hand in hand with greater influence to bring about change.

What should an intelligent strategy for the future therefore look like to prevent a slide into a raw materials economy? When conducting a comparative analysis of the countries of Namibia, Angola, Uganda and Tanzania including a brief look at Ghana and Botswana, you can see which factors are important for the sustainable handling of a country's own resources. Above all, good governance and a focus on the common good are essential to deal

with the social issues that resource wealth entails in a manner to ensure an equitable participation by all. The distribution of profits must be handled in a way to ensure living conditions improve as a result. This can, for instance, be affected via a fund model. Broad popular participation and transparent resource extraction licencing procedures can help to eliminate the roots of corruption, the scourge of resource wealth. The leading government figures and the transnational extraction companies bear a large responsibility in this area.

**Broad popular participation and transparent resource extraction licencing procedures can help to eliminate the roots of corruption, the scourge of resource wealth.**

Although only few countries have so far committed themselves by entering into mostly independent transparency agreements such as EITI, this may well represent a promising approach; ultimately, however, public accountability remains a voluntary commitment. Out of the SADC states, only Mozambique, Zambia and Tanzania have joined so far, while the Democratic Republic of the Congo has had its membership suspended. Namibia, Angola and Uganda have not joined the transparency initiative to date for a variety of reasons, although it has been endorsed by the World Bank and donor countries. One glance at the SADC

states in their entirety shows, however, only few countries rich in raw materials wish to become involved in independent monitoring of the granting of licences and the distribution of raw materials profits. Instead, most countries are strengthening state control through tax and licence granting procedures, or by decreeing a majority public stake in the so-called strategic resources as in Namibia, for instance. For the majority of countries in Southern Africa the resource issue is, after all, not just a material issue, but also a question of survival of strategic, power-related importance for the people in government, in which their reputation and influence abroad play a part as well.

**Parliamentary monitoring represents another component in preventing predatory exploitation of resources.**

The role of the parliaments and their monitoring function with respect to their governments represent another component in preventing predatory exploitation of resources and its repercussions, which requires strong parliaments at national and local level to champion the interests of the local population in a self-assured manner. Finally, international standards as well as conditions imposed by the World Bank or industrialised buyer countries on the importation of raw materials from the countries of Sub-Saharan Africa are an indirect, yet in some cases also effective means of exerting pressure, particularly on the raw materials economies, which are mostly governed in an autocratic or totalitarian manner. In the long term, immiserising growth does not benefit anyone, because it entails the risk of becoming mired in or sliding into crises and conflicts. However, there are different and conflicting interests at work here, pursued by the mostly globally operating resource extraction companies, by Western industrialised countries and by states such as Brazil, Russia, India and South Africa (BRICS). This complex scenario makes it unlikely it will be possible to produce rapid positive change.

In terms of development challenges for the future, there remains the question as to whether the responsible governments will succeed in shaping social cohesion in a manner that is sustainable and focused on the common good so raw materials are less likely to cause crises and conflicts and more likely to provide opportunities for solving numerous social problems. Specialist expertise, good infrastructure as well as good governance are central

factors for extracting resources in line with the country's best interests and using them to the benefit of the country as a whole and its entire population.<sup>75</sup> To date, Southern Africa is not suffering a resource crisis thanks to its raw material reserves and the revenues obtained from them. There is, however, a persistent crisis of trust in the economies that mostly rely on one raw material, such as oil in Angola. Should the impression prevail that only a few are benefiting from the raw materials industry while the majority of the population lives below the poverty line, further distribution struggles seem inevitable, which would jeopardise the respective country's stability or even that of entire regions. Added to this is frequently an artificial or even state-decreed lack of an alternative to exploiting the raw materials to secure power and influence.

One can also not ignore people's increasing sensitivity to the need to manage the impacts of climate change and of environmental pollution caused by the raw materials industry. The poorest people suffer the impacts most acutely. An ever increasing number of people are, therefore, becoming politically engaged and recognising the force civil society represents. The protests against the construction of pipelines, such as those in Tanzania, or the demands for environmental conditions to be placed on oil production in Uganda are indications of this change. In addition, the working conditions in the resource extraction sectors will determine whether the respective country will experience peace or unrest. Some countries already favour broad society participation in the profits from raw materials as well as economic diversification. In the raw materials industry itself, there is also an increasing awareness of the precarious situation of the employees, which has resulted in some dedicated operating models being devised, for instance for the mine workers in Namibia. To gain the approval of the entire population for resource extraction will ultimately depend on the credibility and transparency of the package of measures regulating it. Only then can the resources of Southern Africa truly turn into a blessing.

# A PEOPLE'S PARTY REINVENTED?

## THE DUTCH CHRISTIAN DEMOCRATS

*Olaf Wientzek*

As the country's largest people's party, the Dutch Christian Democrats (Christen Democratisch Appèl, CDA) have played a decisive role in shaping the country's history since World War II. The 2010 and 2012 parliamentary elections probably constituted the most serious crisis in the party's history. It has since made efforts to reform in terms of its program, structure and personnel. During the local and European elections in May, the party succeeded in curbing the downward trend for the time being. However, it is facing huge obstacles in its endeavour to regain its former strength for good. Other Christian democratic parties in Europe are facing similar challenges and may do well to take some lessons from the CDA's development over the last few years.



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## HISTORY

For a long time, Dutch society was characterised by the so-called pillarisation along ideological lines. In a system of that type, groups defined by their religion and social status are living quite strongly segregated lives, each in its own cosmos with its own social organisations (political parties, associations, schools, health insurance institutions, etc.). Everyday life mainly unfolds within each pillar. Christians, socialists and liberals formed the three pillars of the Dutch political system. The "Christian pillar" itself was divided into a Catholic and a Protestant pillar. Christian democratic parties represented a fundamental component of the Dutch party system. The present-day Christian democratic party of the Netherlands, the Christen-Democratisch Appèl (Christian-Democratic Appeal) is a relatively young party, which was formed from three denominational parties in 1980. The Katholieke Volkspartij (KVP, Catholic), the Anti-Revolutionaire Partij (ARP, Protestant) and the Christelijk-Historische

Unie (CHU, Protestant) were all established political forces. A merger of these three parties seemed unrealistic until the 1950s, as the sectarian divide was more pronounced than in Germany because of the pillarisation of society. However, in response to a stronger trend towards secularisation in Dutch society and the weakening of the pillarisation that this entailed, efforts to foster closer cooperation between these forces began in 1967. But it would take another 13 years until the joint Christian democratic party, the CDA, was inaugurated. The three parties entered parliamentary elections together in 1977 for the first time, and the party itself was formed officially in 1980.<sup>1</sup>

The merger was encouraged by the fact that all three parties had already been collaborating as members of the European People's Party (EPP) since the 1970s. The rapid consolidation of the CDA after its foundation was furthered by the good early results achieved by the alliance under the Prime Ministers Dries van Agt (1977 to 1982) and Ruud Lubbers (1982 to 1994). In each of the four elections during the 1980s, the Christian Democrats attracted some 30 per cent of the votes (in 1989 even 35.3 per cent), thereby establishing themselves as a people's party.

**The CDA suffered its first crisis in 1994. After the party had been in power for 17 years, its support dropped to 22.2 per cent of the votes.**

The CDA suffered its first crisis in 1994. After the party had been in power for 17 years, its support dropped to 22.2 per cent of the votes. Its waning popularity was a clear sign of a desire for change in the Netherlands; also, as the party in power, it had lost touch with its members and the country's citizens to some extent. At the same time, the Liberals and Social Democrats forged a center-right coalition against the CDA under Prime Minister Wim Kok (Partij van de Arbeid, PvdA), which kept the party out of government for the next eight years. Initially, the Christian Democrats did not manage their opposition party role well, and in the 1998 elections, they dropped below the twenty per cent mark for the first time. They did, however, make use of this time to revitalise the party in terms of its program and personnel.

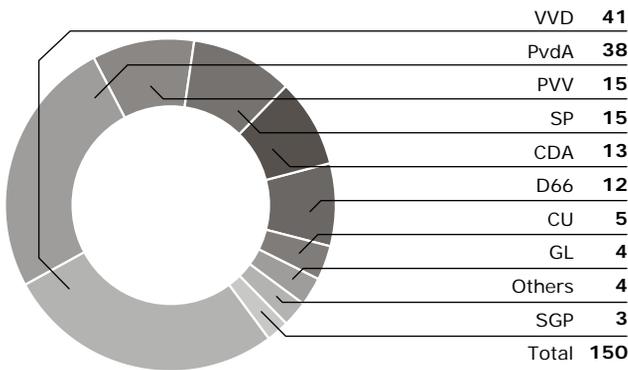
1 | Hans-Martien ten Napel, "'Een wet mag de zedelijke draagkracht van het volk niet te boven gaan'. De opstelling van het CDA-in-wording in het parlement", in: Gerrit Voerman (ed.), *De conjunctuur van de macht. Het Christen Democratisch Appèl 1980-2010*, Groningen, 2011.  
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Table 1  
**Election results at Netherlands parliamentary elections  
 2006 to 2012 (in per cent)**

Party	2006	2010	2012
Christen Democratisch Appèl (CDA)	26.51	13.61	8.51
Partij van de Arbeid (PvdA)	21.19	19.63	24.84
Socialistische Partij (SP)	16.58	9.82	9.65
Volkspartij voor Vrijheid en Democratie (VVD)	14.67	20.49	26.58
Partij voor de Vrijheid (PVV)	5.89	15.45	10.08
GroenLinks (GL)	4.60	6.67	2.33
Democraten 66 (D66)	n.a.	6.95	8.03
Others	10.56	7.38	9.98

Sources: Data 2006: "Tweede-Kamerverkiezingen – 22 november 2006", <http://nlverkiezingen.com/TK2006.html> (accessed 3 Jul 2014). Data 2010 and 2012: Kiesraad, "Bijlage Nieuwsbericht 17 september 2012", Sep 2012, <http://kiesraad.nl/sites/default/files/BIJLAGE%20bij%20nieuwsbericht%20uitslag%20TK2012.pdf> (accessed 3 Jul 2014).

Fig. 1  
**Allocation of seats after the 2012 election**



Source: Kiesraad, "Bijlage Nieuwsbericht 17 september 2012", Sep 2012, <http://kiesraad.nl/sites/default/files/BIJLAGE%20bij%20nieuwsbericht%20uitslag%20TK2012.pdf> (accessed 24 Jun 2014).

After eight years of left-liberal coalition, the CDA succeeded in staging a comeback in 2002 under its new party chairman Jan Peter Balkenende, who held the post of head of government until 2010 in four different coalitions. While the party did not entirely regain the level of voter support it enjoyed in the 1980s, it achieved respectable results in the three elections of 2002, 2003 and 2007, ranging between approximately 25 and 29 per cent. These were eventful years in government. In 2002, the CDA went into coalition with the right-wing populists of the Pim Fortuyn List (LPF), which had made it into Parliament from a standing start with 17 per cent. This government alliance represented a breach of taboo in Dutch politics. One good thing that came out of the LPF's participation in government, however, was that it was soon debunked. In the 2003 elections, called after the rapid fall of the government, the LPF had already shrunk into a minor party (5.6 per cent). The CDA, for its part, weathered further governmental crises and the ensuing elections unscathed. At the same time, it succeeded in attracting voters from outside its core following, which consisted of people with a Christian outlook. The Christian Democrats won over some Muslim voters, and two of its parliamentary representatives were, in fact, Muslims. During those years, some eleven to thirteen per cent of voters with no religious affiliation voted for the CDA.



Jan Peter Balkenende (center) at the EPP Summit in 2010: The former CDA party leader was Prime Minister in four different coalitions between 2002 and 2010. | Source: EPP, flickr ©.

Table 2  
**Election Results of the CDA since 1989 (in per cent)**

	1989	1990	1991	1994	1995	1998	1999	2002	2003
Elections to the Tweede Kamer	35.3			22.2		18.3		27.9	28.6
European election	34.6			30.8			26.9		
Local council elections		29.0		21.6		20.4		20.3	
provincial elections			32.7		22.9		24.4		28.0

	2004	2006	2007	2009	2010	2011	2012	2014
Elections to the Tweede Kamer		26.5			13.6		8.5	
European election	24.4			20.1				15.2
Local council elections		16.9			14.8			14.3
Provincial elections			25.0			14.1		

Source: Kiesraad, "Databank Verkiezingsuitslagen", <http://verkiezingsuitslagen.nl> (accessed 7 Jul 2014).

Despite its short history, the party is well rooted in the population at a local level, partly because it was able to build on the structures put in place by its three predecessor parties. With close to 57,000 members, the CDA is still one of the strongest parties in the Netherlands in terms of membership. It is considered a people's party within the political establishment and has the image of a *bestuurderspartij*, a party with expertise in administration and government, ready to take on political responsibility at any time. It was also perceived as a party of the political center, which stood for solid economic management, was a consistently reliable coalition partner prepared to make compromises and therefore a perfect manifestation of the consensual political system of the Netherlands. One further key characteristic was its strong commitment to Europe; it was considered the Europe-party of the country for a long time. Dutch Christian Democrats have played a significant role in the European integration process since its inception. They have also represented an important force in the European People's Party. The CDA was a driving force in

the formation of the EPP and its parliamentary group in the European Parliament and had a hand in shaping its program. The CDA and its Scientific Institute under former Chairman Jos van Gennip were instrumental in expediting the drafting of the Basic Programme of Athens in the early 1990s.<sup>2</sup>

### THE CRISIS OF THE CDA FROM 2010

The parliamentary elections to the Tweede Kamer (Second Chamber) of 2010 brought an unexpectedly harsh defeat for the party; it lost half its votes and seats, its proportion of votes dropping to 13.6 per cent (21 seats). This downturn was not entirely unexpected. The CDA had already lost a surprising number of votes in the local elections in March of the same year.<sup>3</sup> Prime Minister

**In spite of the election defeat in 2010, the Christian Democrats built a government coalition with the right-wing liberal People's Party for Freedom and Democracy and the Party for Freedom of Geert Wilders.**

and party chairman Balkenende resigned and handed the party leadership to former Foreign Minister Maxime Verhagen, who favoured a conservative course. In spite of the election defeat, the Christian Democrats

once again entered into a government coalition with the right-wing liberal Volkspartij voor Vrijheid en Democratie (People's Party for Freedom and Democracy, VVD) and the surprisingly strong right-wing populist Partij voor de Vrijheid (Party for Freedom, PVV) of Geert Wilders. The intention was to raise the party's profile in a center-right government while debunking the right-wing populists through their involvement, as had happened in 2002. In contrast to the alliance with Pim Fortuyn List in 2002, the PVV did not actively participate in the government, but entered into a so-called toleration agreement, whereby it undertook to support the government in certain policy areas to ensure a majority. The CDA and VVD in turn undertook to support a tightening of the asylum and integration policy and to tone down planned economic reforms.

2 | More about the relationship between the CDA and the EVA can be found in Steven van Hecke, *Wanneer macht voor ideologie komt: Het CDA en de Europese Volkspartij*, Groningen, 2010.

3 | Cf. Peter R. Weilemann and Olaf Wientzek, "Warnsignale für die etablierten Parteien – Die Gemeinderatswahlen in den Niederlanden", KAS Country Report, 5 Mar 2010, <http://kas.de/bruessel/de/publications/18975> (accessed 10 Jun 2014).

The manner in which the CDA entered government was highly controversial within the party. Although two-thirds of the membership had supported the course of action at a special party conference in Arnheim, there were still heated disputes taking place during the following few months. Experienced members severely criticised the course taken by the party leadership, and the party conferences frequently displayed disunity and strong differences of opinion. A change of course then took place in April 2011 subsequent to the election of the future party chair of the CDA. With the Protestant minister Ruth Peetoom winning the vote, the helm was taken by a politician highly critical of the PVV. By voting for her, members made it clear that they wanted both a different style of politics and a different direction in policy. Consequently, there soon followed the first steps towards a reorientation in terms of both program and structure. Under the leadership of the former Deputy Secretary General of the OECD, Aart Jan de Geus, the Strategisch Beraad (Strategic Council) was convened for the purpose of drafting a new party program.



A protestant minister at the forefront: In April 2011, Ruth Peetoom, here together with the President of the European Council Herman Van Rompuy in The Hague in 2011, became the CDA's party chair, representing a group critical toward the Party for Freedom. | Source: Dirk Hol, Council of Europe, flickr ©111111.

In the spring of 2012, the government comprising VVD, CDA and PVV disintegrated. This came at a rather bad time for the CDA, as it was in the middle of its restructuring process. The Christian Democrats paid a high price for

their collaboration with the right-wing populists and only attracted 8.5 per cent of the votes (13 seats) in the parliamentary elections in the autumn of 2012. Within just six years, they had lost two-thirds of their electorate. The party fared particularly badly in the major cities, where its following had shrunk to under ten per cent almost across the board and in some places even to under five per cent (as in Amsterdam).

## CAUSES OF THE PARTY CRISIS

After the 2010 election defeat, the party charged the long-time MP Léon Frissen<sup>4</sup> with analysing the causes, and after the 2012 parliamentary elections, the CDA mayor Ton Rombouts submitted a similar report.<sup>5</sup> All in all, the causes of the election defeat can be summarized under five headings:

### 1. Secularisation of Society

Over the previous 40 years, the proportion of Catholics among the Dutch population had declined from 40 to 25 per cent. In the case of the two largest Protestant Churches, there was an even more pronounced downturn from 33 to 13 per cent. Regular church attendance dropped even more significantly. This shrunk the CDA's voter base. Due to the simultaneous depillarisation and increasing individualisation of society, religious affiliations are playing a less important role these days. Having said that, some 40 to 55 per cent of Christians voted for the CDA during the first decade of the 21<sup>st</sup> century, while it was only just over a quarter in 2010 and only one-fifth in 2012. This loss of support from Christian voters cannot be explained purely by the depillarisation of society. In fact, many voters no longer perceived the party as a credible force promoting Christian values – not least because of its collaboration with the PVV in government. At

**The loss of support from Christian voters cannot be explained purely by the depillarisation of society. Many voters no longer perceived the party as a credible force promoting Christian values.**

4 | Cf. CDA, "Verder na de klap: Evaluatie en perspectief, rapport commissie Frissen", Nov 2010.

5 | Cf. CDA, *Rapport Commissie Rombouts. Om eenheid en inhoud*, 27 Oct 2012, [https://cda.nl/fileadmin/CDA/Documenten/2012/Rapport\\_Rombouts\\_Om\\_eeheid\\_en\\_inhoud\\_2\\_.pdf](https://cda.nl/fileadmin/CDA/Documenten/2012/Rapport_Rombouts_Om_eeheid_en_inhoud_2_.pdf) (accessed 16 Jun 2014).

the same time, the Christian Democrats were not able to compensate for their losses where their traditional clientele was concerned by attracting consistent support from Muslim and non-religious voters. In 2010 and 2012, the proportion of the latter was only two and three per cent respectively. The coalition with the Party for Freedom proved highly damaging to the campaign to attract Muslim voters, which had been quite successful in the early years of the new millennium.

## **2. Disenchantment with the Elite and a Changing Political Culture**

The reputation of being a *bestuurderspartij* became a liability for the CDA. After having run the government for eight years with various crises, the party experienced the effects of a desire for change. The fact that the political culture was moving away from a consensual political system plus a mounting disenchantment with the elite within society had consequences for the CDA. The Christian Democrats were seen as part of the Hague elite, which the citizens considered to represent the consensual political style and which had failed in the area of immigration and integration policy. The gradual decline in the pro-European and multi-cultural consensus since the end of the 1990s consequently hit the party hard. The loyalty factor has generally decreased considerably for all parties. This is evident from the volatile voter disposition, which has also affected the liberal and social democratic parties in the last 15 years. This was demonstrated clearly by the dramatic loss in popularity of right-wing liberals and social democrats within weeks of taking government in 2012.<sup>6</sup>

## **3. Lack of Constructive Debate within the Party**

The report by the former MP Frissen criticised the estrangement between the grassroots and the party leadership. The people in leadership had succumbed to the “arrogance of power” and were impervious to criticism; they were seen as being too unapproachable and introverted and had

6 | Surveys showed that both governing parties lost close to half their support within just a few weeks, see also: Olaf Wientzek, “Holpriger Start der neuen niederländischen Regierung”, KAS Country Report, 16 Nov 2012, <http://kas.de/bruessel/de/publications/32772> (accessed 10 Jun 2014).

shut themselves off from the outside. The report also complains that the party had not responded promptly enough to make the necessary structural changes to match the changes taking place in society.

#### 4. Party Disunity

**To many, the Christian Democrats demonstrated disunity and unreliability. For the CDA, this impression proved to be disastrous.**

While there was initially some criticism about a lack of debate within the party, the public self-evisceration of sections of the party since 2010 following the coalition with the PVV was one of the main causes of the 2012 election defeat. To many, the Christian Democrats demonstrated disunity and unreliability. For the CDA, whose perceived strengths had previously included stability and reliability, this impression proved to be disastrous.

#### 5. Lack of a Distinct Programmatic Profile

A fifth factor relates to the weakened ideological profile of the CDA in the run-up to the 2010 elections – not least due to the period in government with varying coalition partners. Many voters and party followers were unsure about which concrete policy contents the CDA would in fact promote. By following a hard line in its immigration and integration policy during the coalition with the VVD and the PVV and by its contributions to the debate about matters of European policy the party sowed confusion among its own followers.

### WAYS OUT OF THE CRISIS AND STEPS TOWARD REORIENTATION

Overall, there are four dimensions to the party's reorientation:

#### 1. Programmatic Reorientation

In January 2012, the Strategy Council presented the new party program "kiezen en verbinden – politieke visie vanuit het radicale midden",<sup>7</sup> which the Christian Democrats

7 | In English: Decide and connect – a political vision from the radical center. Accessible (in Dutch) at: CDA, "Strategisch Beraad presenteert: Kiezen en Verbinden", 20 Jan 2012, <https://cda.nl/actueel/toon/strategisch-beraad-presenteert-kiezen-en-verbinden> (accessed 10 Jun 2014).

adopted in June 2012. The title suggests that the CDA wishes to position itself in the political center. It expresses its commitment to the model of the Social Market Economy, to a positive stance towards immigration (in conjunction with an activating integration policy) and to the need for a strong Europe. One of the explicit objectives is to establish the CDA as the most important Europarty of the Netherlands. In addition, political polarisation and populist positions are denounced. This sent a significant signal, as the CDA was still in the toleration coalition with the PVV at the time, yet in part contradicted the agreement made with the right-wing populists in its party program. On the whole, the program does not represent a total U-turn, but rather in many respects a return to the party's roots and ideological core. The CDA membership welcomed it as an important guide. The media and the public, on the other hand, were more reticent in their response. They criticised that the concrete policy objectives that the Christian Democrats would pursue in their political activities were unclear. During the following two years, the Christian Democrats tried to put some flesh on the bones of their party program. In June, party leader Sybrand van Haersma Buma presented seven guiding principles for the party's future orientation.<sup>8</sup> According to these principles, the CDA sees itself as an inclusive party of living together in society, of the family, a promoter of small and medium enterprises, of solid economic management and of volunteering.

At the same time, there were extensive discussions about the party's fundamental values. In 2014, the party presented an anthology dealing with the meaning of Christian Democracy, the role of social organisations and the implementation of Christian democratic principles in current politics.<sup>9</sup> The debate about the party's orientation included discussions about the role of the "C". There is some disagreement within the CDA as to how vigorously the party's image should portray the "C" and some MPs argue that

8 | The seven guiding principles are: "Community rather than state", "Everybody has a task", "An honest economy", "Against hangers-on", "Family is our foundation", "Self-assured Netherlands linked to Europe", "The future of our children".

9 | Cf. Christen democratische verkenningen, *CDA Ontleed. Over de betekenis van de C, D en A*, [https://cda.nl/fileadmin/Organisaties/WI/CDA\\_ontleed\\_definitief.pdf](https://cda.nl/fileadmin/Organisaties/WI/CDA_ontleed_definitief.pdf) (accessed 10 Jun 2014).

stressing it excessively would frighten off urban voters and those without religious affiliation. However, dropping the “C” from the party name was never considered, partly because the associated values had served as keystone and guide in the party program.



European Elections 2014: The party’s Manifesto on Europe (as of June 2013) reflects the logic of the pro-European party program and calls for stronger economic policy coordination and a strengthening of foreign and security policy. | Source: harry\_nl, flickr ©①③②.

The CDA defines itself as a party of values, of the community (*samenleving*), of subsidiarity and of an inclusive society. The purpose of this definition is to differentiate itself from other forces of the (wider) political center. On the one hand, it opposes the materialism of the right-wing liberal VVD and the social democratic PvdA and thereby an overly strong marketisation of society. On the other hand, it differentiates the party from the line taken by the liberal D66, which it views as being excessively focused on the individual. Instead, the CDA sees the individual as a responsible member of a community. In its efforts to implement these principles in political practice, the CDA focuses on the areas of the economy, finance, sustainability, family, health and care. Immigration and asylum policy, which had dominated the political discourse in the Netherlands for years, have become less prominent. In concrete statements, the party instead emphasises budgetary consolidation, rejection of further tax increases and income equalisation, relief for

small and medium-sized enterprises, and consideration of the concerns of families. Contrary to what the title of the party program suggests, the party is taking a center-right course in the area of economic policy under Sybrand van Haersma Buma's leadership partly due to the realisation that the CDA lost most voters, including particularly SME entrepreneurs, to the right-wing liberal VVD in 2010 and 2012. To date, the majority of the party's following has supported this course. Party strategists of the CDA have identified traditional and modern middle-class voters as their main target audience. Both groups represent slightly more than a third of voters.

Lively discussions are taking place about the stance on Europe. The party's Manifesto on Europe, which was presented in June 2013, reflects the logic of the pro-European party program and demands, amongst other things, stronger economic policy coordination, a strengthening of foreign and security policy, the EU taking a more active role in asylum and migration policy, and a strengthening of national parliaments while retaining the European Parliament's right of initiative. However, this manifesto was a step too far particularly for the CDA group in the Second Chamber. While the program for Europe, therefore, reflects most of the guidelines of the manifesto, it is altogether more cautious in tone. When the program was adopted at the European party conference in February 2014, some more critical sections were added on the initiative of some regional associations as well as the youth organisation Christen-Democratische Jongeren Appèl (CDJA).<sup>10</sup> Consequently, the final version of the program argues against a federal Europe and rejects any expansion of the EU during the coming legislative period. At the same time, the program calls for EU institutions to be slimmed down and scrapped the suggestion to grant the European Parliament the right of initiative. Party representatives have made repeated public demands for a discussion about the option to renationalise competencies of the Community level. This discourse also reflects the fundamentally more Eurosceptic mood in the country. However, these

**Party representatives have made repeated public demands for a discussion about the option to renationalise competencies of the Community level.**

10 | Cf. Olaf Wientzek, "Startsignal für Kommunal- und Europawahl", KAS Country Report, 13 Feb 2014, <http://kas.de/bruessel/de/publications/36866> (accessed 10 Jun 2014).  
DR © 2014, Konrad Adenauer Stiftung e. V.

topics were pushed into the background during the last few weeks of the European election campaign. Overall the CDA still calls for an active role of the Netherlands in the European Union. It is striking to see the frequency with which the CDA emphasises the partnership with its sister parties, namely the CDU in Germany and the Christen-Democratisch en Vlaams (CD&V) in Belgium. The Dutch Christian Democrats have also looked at developments in Germany for inspiration with respect to several program issues.

## 2. Differentiation from the PVV

By the time it published its party program at the latest, the CDA had distanced itself clearly from the right-wing populists – both in the political discourse and in its program. In its party program, the party very explicitly takes a positive stance with respect to immigration and cultural diversity (and therefore also an open attitude towards the role of Islam in public space). The CDA is also making efforts once again to be welcoming to Muslim voters.<sup>11</sup> Party leader Sybrand van Haersma Buma has stressed repeatedly that the CDA would not join a government including Geert Wilders' PVV in the future. Occasionally, the CDA even launches frontal attacks against the right-wing populists, for instance after Wilders stated that he would see to it that there would be fewer Moroccans in the Netherlands. At the same time, the Christian Democrats want to avoid giving the impression that the CDA and the parties of the political center are ganging up on the PVV. Otherwise, the CDA would add further fuel to the PVV's victimisation and anti-elite discourse. Instead, the CDA is going its own way in terms of political communication while not shying away from addressing issues that the right-wing populists focus on.

## 3. From Government Party to Opposition Force

Strategically, the CDA has been in an ambivalent position since it went into opposition in 2012. While it can hope to win back some voters who are disappointed by the political

11 | Cf. Werkgroep CDA & Islam, *Gedeelde waarden – moslims in het CDA* (Shared values – Muslims in the CDA), Jan 2013, [https://cda.nl/fileadmin/Organisaties/Visiegroepen/Publicaties/Gedeelde\\_waarden\\_Moslims\\_in\\_het\\_CDA.pdf](https://cda.nl/fileadmin/Organisaties/Visiegroepen/Publicaties/Gedeelde_waarden_Moslims_in_het_CDA.pdf) (accessed 10 Jun 2014)

activities of the PvdA-VVD coalition, the grand coalition in The Hague frequently conducts pragmatic politics, giving the CDA as a former government party little scope to exercise its opposition role. Added to this is the fact that the left-wing liberal opposition party D66 is also vying for voters from the center ground. But unlike the D66, which last exercised governmental responsibility in 2006, the CDA has yet to become accustomed to its role in opposition. A sense of responsibility and pragmatism are deeply ingrained in the party's DNA, and the party considers itself a force of balance, of compromise and of respectable administration. It has since succeeded in adopting its new role and in raising its profile. Unlike the left-wing liberals, the Christian Democrats voted against the "autumn agreement" in October 2013, an important austerity program put forward by the government. This step came as a great surprise to many observers. The reason for the rejection: in the eyes of the CDA, the package would affect the middle class disproportionately, impose excessive tax increases and encourage the erosion of income differentials. This decision was a risky manoeuvre, but was welcomed by large swathes of the voting public.

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This course was confirmed at the party conference in Leeuwarden in November 2013, when van Haersma Buma announced that there would be no compromises for compromise sake in the future. On the other hand, the CDA is still supporting government projects, as long as they are in line with its own guiding principles, such as the reduction in the period people can draw unemployment benefit or the reform of the protection against dismissal. Simultaneously, the party's communication strategy has also been adapted in some respects. Individual politicians have thus not shied away from overstating their positions. This is a common course of action for opposition parties, but many observers were surprised to see CDA representatives adopting it. However, the party has been making efforts to find the right balance since 2013: to lose the image of a low-profile party of government and compromise while avoiding the impression of engaging in opposition for the sake of it.

#### 4. From Government Party to an Inclusive People's Party – Strengthening Internal Participation

One of the key criticisms of the Frissen Report was the estrangement of the CDA from the party grassroots and from the country's citizens. The party responded by encouraging greater participation by its followers as well as non-members and by bringing in many new faces.

- Introduction of direct elections for top positions: In April 2011, the party chairman was determined in a direct election for the first time. The following year, the leader of the parliamentary party Sybrand van Haersma Buma also became party leader (*partijleider*) by direct election for the first time. In November 2013, Esther de Lange came through as the preferred candidate for the European elections in an election conducted by telephone and online. The introduction of direct elections was a risky measure, but it helped to avoid potentially damaging competition.
- New blood: Numerous experienced politicians were replaced by younger people or by those with strong roots on the regional level. While the composition of the lists for the parliamentary and European elections drew some criticism, not least due to what some considered excessive changes in personnel, this did not produce a serious dispute within the party.
- Participation by the grassroots in programmatic activities: The regular consultation between the Strategic Council and regional and local party organisations is a case in point.
- Participation by social organisations: The party also included independent organisations in its discussions on the party program, such as the independent youth movement G500. While the CDA has retained its links with the traditional institutions of the pillar structure, it is no longer relying on these exclusively. In line with this strategy, van Haersma Buma called upon the large organisations and associations, which are also suffering from shrinking membership and a loss of trust, to make efforts to reform; rather a novel stance for the CDA. The party is therefore no longer restricting itself to its traditional

connections in its interaction with civil society, but is searching for new ways to connect with it.

- **Approaching non-members:** The CDA increasingly attempts to get in touch with non-members who are thought to be ideologically close to the party but who have not been in contact with political representatives of the CDA yet. Party activities will increasingly address (middle class-oriented) non-members in the future. Moreover, the party has increasingly used systematic microtargeting.

### FIRST SIGNS OF PROGRESS – AN END TO THE CRISIS?

During the elections in the spring of 2014, it seemed the party's efforts and strategies were starting to pay off, as the Christian Democrats were able to halt the downward trend for the time being in the local and European elections. In the 2014 local elections, they achieved a respectable result with just over 14.3 per cent of the votes. While this represented a small drop compared to the previous local elections of 2010, the CDA once again became the strongest single party at the local level in terms of seats and votes.

**The 2014 local election results were of psychological significance. A defeat would have damaged local support for the party and its reform agenda and potentially subjected it once more to the ordeal of internal strife.**

This was also a psychologically significant result in view of the party's traditionally strong local roots. A heavy defeat would have damaged local support for the party as well as its reform agenda and potentially subjected it once more to the ordeal of internal strife. It appears that the efforts to strengthen the links with the local level and the party grassroots have borne fruit.

The European election results paint a similar picture. Although the party clearly suffered losses compared to 2009 (minus five per cent), it managed to retain the existing number of seats. With an overall result of 15.2 per cent of the votes, it did considerably better than the polls had predicted and achieved its best results since 2009 in the combined ballots. This suggests that the party's pragmatic pro-European stance has paid off to some extent. However, it is of symbolic significance that the CDA just lost out to the D66 in terms of votes, a party that had taken up a clearer pro-European position. One reason for the party's respectable results was the disproportionately high

mobilisation rate among its following in both elections. It therefore appears that the efforts to involve the party's own members paid off. Furthermore, the CDA was untroubled by any scandals that might have damaged its image, which also won it appreciation from the voters.

Based on the results of the local council and European elections, the CDA appears to have passed its nadir. While these results can probably not be directly transferred to the national level, as the party benefited from a low turnout at the European elections and from its solid local grassroots support in the local elections, improved figures in national polls indicate that the results from the two elections are more than just a blip. The 15 per cent, which are currently being forecast, represent a significant step out of the crisis, but cannot satisfy the aspirations of the former people's party. In spite of the modest recovery, both sets of results once again reflect the party's key issues. The CDA still remains generally below the ten per cent mark in the major cities and once again enjoyed its greatest support in the rural areas of Overijssel and Friesland.

#### CHALLENGES FOR THE PARTY'S FUTURE DEVELOPMENT

**Looking back, it is remarkable the Christian Democrats did not panic after their historic nadir in 2012 and continued on their course of renewal.**

The CDA has not totally reinvented itself. While it has made efforts to go back to its roots, it has also forged new paths in some areas. The initiated reforms show that the

CDA is aware of changes taking place in society, in political culture and in the citizens' attitude to various issues. Looking back, it is remarkable the Christian Democrats did not panic after their historic low in 2012 and continued on their course of renewal. So far, it has succeeded in holding discussions within the party without engaging in a publicly conducted party dispute. This will remain essential if the party wishes to continue its consolidation. Its period in opposition is proving to be a valuable lesson in enhancing the party profile. To date, the party has succeeded in profiling itself as a constructive opposition party without degenerating too much into populist rhetoric. Whether the self-proclaimed image of a value-oriented party of the community will suffice for voters to perceive the CDA as a new, "reformed" people's party remains to be seen. It is striking that the party's popularity in the polls increased

precisely at a time when its guiding principles were being translated into concrete political content. One of the challenges over the coming years will be to retain the correct balance in the European discourse. While a dispassionate course on Europe may match the mood of many voters in the center and in the center-right spectrum, many Dutch people saw the D66 as “the Europe-party” in the recent elections because of its clear pro-European stance. The fact that Hans Wijfels, a long-serving CDA politician, announced shortly before people went to the polls that he would vote for the D66 sent a warning shot across the party’s bow.

Internally, the party is enjoying calmer times. Future discussions on party policies regarding the economy and Europe will no doubt entail some disagreements, partly due to the fact that the positions of CDA members and (potential) CDA voters do not always match entirely. Where party renewal in terms of personnel is concerned, the challenge is to find the right mixture of new blood and experience. The good results obtained by the experienced politician Annie Schreijer-Pierik in the European elections indicate that the party base does also wish to see experienced politicians representing it.

There are several factors suggesting that the CDA might yet find it difficult to rise permanently above the twenty per cent mark. In general, the atmosphere has become tougher for people’s parties, as the Social Democrats have also found out to their cost.<sup>12</sup> The core electorate of each of them has shrunk to not much above five per cent. Even though the CDA has not fully exploited its potential among Christian voters (the strictly Protestant parties of the CU and SGP have made great strides in attracting more voters lately), this voting pool has decreased in size. Due to the deeper gulf between secular and religious people in the Netherlands, the party will find it more difficult than other Christian democratic parties to attract and keep religiously non-affiliated voters for good because of the competition from the secular D66. Observers therefore consider it all

12 | In the local elections, the PvdA attracted only just under ten per cent of the votes; in the European elections, it dropped below the ten per cent mark for the first time ever, ending up behind the left-wing populist SP.

the more important for the CDA to win back the allegiance of the classic voting clientele of a Christian democratic people's party, the middle class. But apart from the CDA, the VVD and the D66 are also vying for this section of the population. There is similar competition for other voter groups. The CU and the SGP remain alternatives for Protestant voters; the VVD is the main competitor in the liberal conservative spectrum, the D66 in the political center as well as for pro-European, urban and younger voters.

The political environment remains difficult for people's parties. Trust in the traditional political elite, which CDA is considered a part of, has generally declined. And the honeymoon period granted to parties taking over the government is short. Consequently, the first time the CDA will participate in government after its spell in opposition will represent a test showing whether the efforts to place the party back on a more solid footing have paid off. The high level of voter volatility, the fact that 80 per cent of the elec-

**The growing mediatisation and personalisation of politics entail opportunities because well-managed media appearances in the final stages of the election campaign might double the support for a party.**

torate are split between five to six parties of similar size will continue to characterise the political system in the Netherlands. The growing mediatisation and personalisation of politics entail opportunities and risks. Good campaign tactics and well-managed media appearances in the final stages of the election campaign might double the support for a party, while conversely, solid preparatory work can be destroyed at a stroke. Recent history has also shown that a charismatic or popular leader alone is not sufficient. In spite of the presence of those such as Geert Wilders and Emile Roemer, the two largest populist parties, the PVV and the Socialist Party (Socialistische Partij, SP), achieved disappointing results, and the charismatic PvdA politician Diederik Samson lost his shine within months of the parliamentary elections.

In the arena of urban politics, the CDA is in a similar dilemma as other parties in the EPP family. Should they concentrate on the rural areas or conduct costly campaigns to increase the party's visibility among the urban population? In CDA's case, there is no easy answer. On the one hand, the party is confronted with a virtually fully secularised population in several large cities as well as distinct apathy in some places. In a country as urbanised as the

Netherlands, it is, on the other hand, virtually impossible to claim to be a people's party while turning one's back on the cities. At the same time, party representatives question the appropriateness of a one-size-fits-all approach towards bigger cities. In many cases urban voters do not seem to be that different from rural voters.

## LESSONS FOR OTHER CHRISTIAN DEMOCRATIC PARTIES

There are other Christian democratic parties facing similar challenges: a declining appeal in the large cities, an aging membership, lack of a clear programmatic profile, the reputation of a (perpetual) government and administration party. This creates problems at the latest when the party is forced into opposition. There are similar social changes (secularisation, declining importance of social organisations) taking place in many countries. Due to the idiosyncrasies of the political system and the party landscape, there is probably only limited scope for the developments and experiences of the Dutch Christian Democrats to be transferred to other contexts. Having said that, they may provide some pointers on how a people's party can deal with a serious crisis and what obstacles can occur in the process.

While discussions about the meaning of the value base and about programmatic guidelines may not have an immediate effect on voters, the example of the CDA shows that they can represent a tool for the party to boost its self-confidence in times of crisis. During the crisis and the process of self-discovery, the "C" proved to be an important keystone for the party's (re)orientation. However, it has become clear it can no longer be the main characteristic of a people's party. Other remarkable features include the strengthened internal participation and new levels of integration with other society actors. The reform process tried to change the political culture inside the party rather than completely re-invent its structure. While these cannot be expected to act as a universal remedy, they appear to have aided cohesion in the case of the CDA. The attempts to increasingly focus party activities on non-members deserve attention.

**During the crisis, the "C" proved to be an important keystone for the party's (re)orientation. However, it can no longer be the main characteristic of a people's party.**

No doubt, any people's party must possess flexibility and adaptability. But when fundamental core features that are deeply rooted in the party's values are called into question, its credibility will suffer – with potentially dramatic consequences for its election prospects. To some extent, the CDA's experiences provide lessons on how to deal with right-wing populist or Eurosceptic parties. The asymmetric collaboration with the PVV in a toleration coalition did not pay off for the CDA. Instead, it put off one part of its electorate for good and created strife among its membership. The strategy of distancing the party clearly from the right-wing populists, which has been pursued since 2012, has so far proved more successful. This should not prevent Christian democratic parties from tackling taboo subjects. But what happened to the CDA shows that a party's credibility suffers when the discourse within the party is influenced unduly by the course set by right-wing populists. At the same time, avoiding an ostentatious proclamation of solidarity between the parties in the center ground turned out to be a wise decision in that it prevented the right-wing populists from playing the victim card.