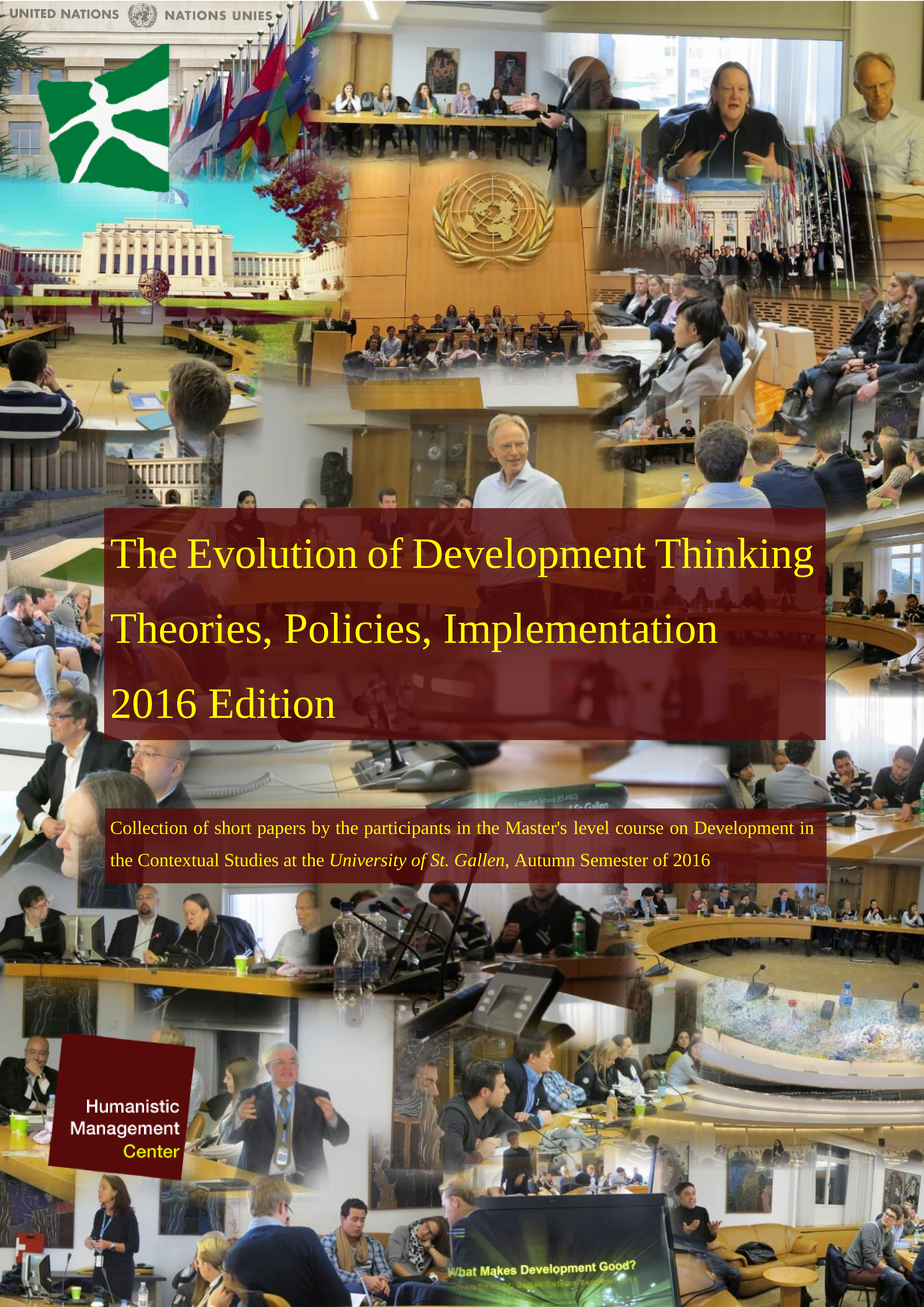

The Evolution of Development Thinking

Theories, Policies, Implementation

2016 Edition

Collection of short papers by the participants in the Master's level course on Development in the Contextual Studies at the *University of St. Gallen*, Autumn Semester of 2016

Humanistic Management Center

2016 Collection of Course Papers from a course on the evolution of development thinking at the University of St. Gallen titled:
The Evolution of Development Thinking – Theories, Policies, Implementation

Researched and Written by the Course Participants

Edited by the course faculty:
Ernst von Kimakowitz

This collection of short papers was researched and written by the participants in the Master's Level course on Development in the Contextual Studies at the *University of St. Gallen* in the Autumn Semester of 2016.

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Background Information on the Course

Ernst von Kimakowitz

This course took place for the first time at the University of St. Gallen, Switzerland at Master's Level in the Autumn Semester of 2016. The participating students in this elective course study a variety of subjects including Business Administration, Economics, Law and International Affairs.

Content: The content of this course is centered on the analysis of the main streams in development thinking from the 1950's until today. Over those nearly seven decades rich and varied outputs have been produced in support of assessing, explaining and overcoming developmental challenges of nations and societies; a substantive solution to developmental challenges however has yet to be found. The main development theories that were subject of this course are Growth Theories, Modernization Theory, Dependency Theory, Washington Consensus, Post-Washington Consensus and the Capabilities Approach. This course encouraged and supported critical thinking by integrating both, ethical reflection on, as well as concrete examples for the impact different schools of development thinking have produced.

Method: This course was focused on facilitating an environment where the participants themselves drive an activity based learning experience. Following the introductory session participants researched and presented theoretical foundations, resultant policies and the subsequent implementation of development programs aligned to the aforementioned six main streams in development theory. In addition the opportunity to discuss with development practitioners was provided in the second block of this course which took place at Palais des Nations, headquarter of the United Nations Office at Geneva.

Goals: The goal of this course was to provide an overview of development theories and how they made impact on policy formulation and program implementation over the last decades. This course provided a broad perspective on development theory that was enriched by concrete examples from different global regions and times. It aimed at enhancing the reflective capacity of participants on one side and on the other side provided a learning opportunity on the topic of development that implicitly penetrates policy making and economic activity almost universally around the globe.

The short papers in this document are designed as an overview outlining the theoretical foundations, policy formulation, program implementation and own reflection of the authors. The course participants presented their cases in more detail in class and hence these papers provide only a short summary of the work delivered in this course.

On behalf of all participants I also want to thank the Permanent Mission of Switzerland to the United Nations Office and to the other international organizations in Geneva, for their most generous support of the day we spent at the United Nations in Geneva and the input provided by Paola Ceresetti and Robert Thomson. Furthermore I would like to thank Emmanuel Barreto of Tempo Hospitality Consulting for the workshop he conducted and the panelists Jane Connors (OHCHR / Amnesty International), Friedrich von Kirchbach (International Trade Center UN/WTO) and Ricardo Murillo (UNCTAD) for their invaluable contribution to this course.

1. Growth Theory 1950s-1960s

Susanne Brand, Sabrina Ernst & Noemi Ingold

Growth Theories: How capital accumulation leads to growth

After World War II there was a high interest in economic growth and economists were in need of a growth model to guide policymakers in the process of creating economic stability, raising the standards of living in war-torn countries and justify developing aids to overcome huge income differences existing in the world (Ruttan, 1998, p. 2; van den Berg, 2013, p. 8).

Early theorists of development such as R. F. Harrod, E. D. Domar, R. Nurkse, P. Rosenstein-Rodan and W. W. Rostow emphasized the role of capital formations as means of growth (Kleemeier, 1984, p. 174). Harrod and Domar developed a dynamic circular flow model to illustrate the instability of growing economies assuming that capital-output ratio is fixed and growth rates could be manipulated by changing saving rates (Barrett, 2007, p. 9; van der Berg, 2013, p. 2). Furthermore, the model was based on the assumption, that investment is both capacity creating and income generating (Ruttan, 1998, p. 2). Within economic development theories, balanced growth theory can be associated with the work of R. Nurkse and P. Rosenstein-Rodan. Both based their models on the theoretical foundation that inducement to invest is limited by the size of market. Nurkse's answer was a dynamic expansion of the market achieved by a simultaneous investment in a number of interdependent consumer goods industries through the establishment of pecuniary extended economies in the form of demand for each other's products. Rosenstein-Rodan's "big push theory", of which the basis is again the enlargement of the market, assesses the need for simultaneous investment in the intermediate and perhaps primary sector of the economy as well as in complementary final industries. These two theories are similar in the formulation. demanding a "critical minimum effort" to escape from the "vicious circles of poverty" (Sutcliffe, 1964, p. 622 f.) Finally, Rostow in his theory, has pinpointed that the raising of savings ratio is a key to understanding the process of the "take-off" into self-sustained growth, i.e. to create the necessary preconditions in stage two of five. (Shaw, 1992, p. 611).

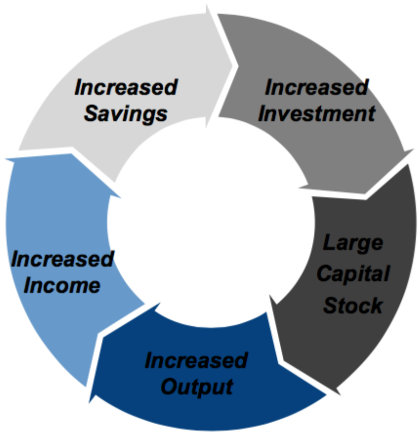

Figure 1: Harrod-Domar Model (own illustration)

Policy Formulation: In search of a second industrial revolution

The early Post-War Consensus focused largely on creating conditions of development and growth (Ranis, 2004, p. 2). A corresponding accompaniment of these efforts were planning models. Mainly focusing on domestically financed investment and the flow of resources, the relevance of technology or changes in the behaviour of the system did only receive little attention. Based on Harrod-Domar foundations such planning models started with exogenous population growth and per capita income targets. (Ranis, 2004, p. 6-7) The dominat view was that to reach politically motivated targets certain input-output relations and necessary domestic and foreign savings would be sufficient, not taking into account dimensions of the market mechanism, price flexibility and exchange rate flexibility (Ranis, 2004, p. 7-8; Ruttan, 1965, p. 17-18). The importance of distributive issues obtained only little recognition. At that time policy makers argued that growth development and efficiency should be prioritised and that issues of equity, like poverty alleviation and income distribution, would be take care of later. (Ranis, 2004, p. 8) The predominant attitude after World War II was that premature redistribution was „a trade-off with the objective of growth" (Ranis, 2004, p. 9).

In this sense India targeted its development strategy to become a „socialistic pattern of society through economic growth with self-reliance, social justice and allevation of poverty" (Dandekar, 1988). Inspired by the then highly regarded Soviet planning model for industrial development, India introduced a First Five Year Plan to co-ordinate investment decisions in the public and the private sector and to foster classical state-directed industrial growth (Singh, 2008, p. 2-3). Using a mechanism where private and public sectors co-exist, planning was developed within the established Planning Commission (Mahalanobis, 1955, p. 4).

The First Five Year Plan (1951-1956) aimed to help the economy recovering from colonial rules and raise domestic savings for growth. It focused on the development of the argicultural sector and was based on the parameters of Harrod-Domar model (see p. 1 for theoretical foundation). The government held an active role in all economic sectors, because of the deficiencies in capital and low saving capacity India was suffering after independence. (Sarma, 1958, p. 207 – 215) As a result of rapid population growth, national income increase was more than per capita income (Population & Development Review, 1997, p. 399 – 400). The reduction of infant mortality and the improvement of children's health by the government, achieved with the help of the World Health Organisation (WHO), contributed to the rapid growth of population. A major success during this planning mode was the construction of dams and the establishment of technical institutions to strengthen higher education. (Jammu & Kashmir, 1968, p. 11 – 15) Overall the First Five Year Plan was seen as a success (Sarma, 1958, p. 235 – 238).

Bareau, Bird and Shonfield (1957) explain, that the Second Five Year Plan (1956 – 1961) brought a real change with the planning. The so called „Nehru-Mahalanobis Plan“, formulated and devised by the key economist of the Second Five Year Plan, Professor Mahalanobis, ephasized an industrialization strategy, redirecting the focus on developing the heavy industry sector and schemed a dominant and essential role for the public sector in India’s economy. The entrepreneurial state took on the role of commanding economic requirements. The industrial policy included objectives like resolution of foreign dominance, annual target growth rate, national self-reliance in fostering domestic capacity, nurturing small scale industry, reaching balanced local, regional and national development by reducing inequalities in income and preventing concentration of economic power. An array of state instruments like allocation of foreign and domestic investment and other regualtory constraints were set up, to govern the industrial development of India on a closed, supervised basis controled by the state. (p. 301 – 309)

The assumption underlying the first two Five Year Plans of India was that institutional changes would trickle-down the benefits of growth to all social classes once the growth process was established. However, in the early years after the first two plans, doubts about the effectiveness of this development approach and its ability to cast out poverty were raised. After all, the by the planned approach generated growth was not strong enough to produce sufficient surpluses for the trickle-down mechanism to work. The public sector was not able to meet the expectations of generating adequate surpluses that would accelerate capital accumulation and help the reduction of inequity. Institutional conditions constrained agricultural growth and the population grew unresisted in this time. The achieved growth during the first two Five Year Plans was not insignificant, yet not sufficient to live up to India’s objectives and aims of development. (Jammu & Kashmir, 1968, p. 28 – 32)

Project Implementation: The Bhoodan-Gramdan Movement

In the illustrated political set up of the first two Five Year Plans, India was a young nation released into independence after belonging to the British colonial empire for nearly one century (British Crown rule in India between 1858 and 1947). The backbone of both the domestic economy and foreign income was agriculture. As the establishment of the first two Five Year Plans displayed, the new political elite aspired to accelerate growth through learning from developed states while following its own agenda, not taking into account the arising problem of India's constantly growing population as mortality fell (Nurkse, 1957, p. 193). In addition, Nurkse (1957) reported that unemployment grew to become the paramount challenge for Indian chief planners. Mass unemployment existed in rural areas where 2/3 of the workforce tried to live from the agricultural sector, i.e. as temporary workforce at large landholdings. Therefore, taking into consideration as well a decay of village industries, the proportion of the population dependent on agriculture had increased significantly. This population pressure consequently led to a steady reduction in the average size of the farm, leaving peasants underemployed. This was the setting when the land gift movement was initiated (p. 188ff).

Coinciding with the launch of the First Indian Five Year Plan, with its emphasis on agriculture, Vinoba Bhave, a fellow to Mahatma Gandhi since 1916, started Bhoodan (land gift) movement in 1951. His motivation for the movement arose from the realization of the agrarian discontent and the people's problems (Dhadda, 2014). So, Bhoodan sought to persuade landlords to donate a share of their holdings – usually a sixth of their estate – for redistribution among the landless. The beneficiaries could settle and cultivate the allotted land free of charge for self-sufficiency, whereas the hereditary rights remained with the landowner (S.K., 1958, p. 487). So Bhoodan was an attempt at land reform, in order to bring about institutional changes in agriculture, like land distribution through a movement and not simply through general legislation (Pati, 2013, p. 110). Vinoba Bhave was suspicious of all attempts to introduce social reforms from above. According to him, it was more important to change the attitude of landowning classes towards property and wealth (S.K., 1958, p. 487). By April 1958, the Bhoodan (land gift) movement had received 5 million acres, a tenth of what the movement has aimed to collect during the first five years. Due to its gradual loss of impetus, Vinoba introduced the concept of Gramdan "village gift" movement in 1955, as a new stage of rejuvenating Indian rural society (S.K., 1958, p. 487f.). So, whereas Bhoodan focused on single recipients, Gramdan favored the establishment of village communities.

Impact Generation: Bhoodan Gramdan Movement in line with Growth Theories?

The movement depended on Bhave's efforts and charisma but entered a new phase when it was recognized by Prime Minister Nehru in 1956, in line with the Second Five Year Plan. Part of this Plan was that cooperative farming should be developed as rapidly as possible and amongst other things, to promote an expansion of small-scale village industries for the production of consumer goods. As government actions for land reform and consolidations were left to individual states, it was not thought that legislation alone can accomplish much. It was hoped for Bhave's land-gift movement, which favored joint cultivation on a village basis, to make some headway but the results have not been notable. (Nurkse, 1957, p. 191f) In other words, while Bhoodan's achievement as such is not insignificant, its real importance may lie in the fact that it made a whole nation realize the urge needed for reform and has driven the states' governments to introduce agrarian legislations on their own (S.K., 1958, p. 488). In its favor it can be said that it was the only Indian land reform program at the time and the movement has reinforced the policy of the time.

A Critical Reflection on Growth Theories in the 1950s – 1960s in the light of the Bhoodan Gramdan Movement

During the 1950s and 1960s, economists laid eye exclusively on the emphasis of quantitative rather than qualitative aspects of economic development of low-income countries, influencing policy makers to focus sole on on growth neglecting issues of equity (see p. 2 for Policy Formulation).This was mostly influenced by the Rostowian concept of the process of growth (Rostow, 1960), that countries could "take-off" into a self-sustained stage of growth only if they can raise their saving investment from an initially low level to above a certain percentage of their gross domestic product. This vision based on the popular Harrod-Domar long-run growth theory, which posited a rather simplistic and linear relationship between capital accumulation and the rate of growth of income (Khatkhate, 2004, p. 896). This is how the models of this addressed growth but failed to consider the distribution factors of income which determines the key parameters of those models such as per capita income that influences on saving rates and therefore investment and capital accumulation (Pangannavar, 2015, p. 24). Not surprisingly, growth experiences of a large number of developing countries, of which most had high saving-rates, have falsified these quite facile assumption (Khatkhate, p. 896).

However, contrary to these models, the Bhoodan-Gamdan movement made a starting point at the distribution of land for agriculture. The approach is not generally different from the common growth theories as for example Rostow in his model considers agriculture and the investment in agriculture as a precondition for the "take-off" of the economy. Still, the distribution of land, and therefore of wealth, made a counterpoint to dependency that would arise from the "big push" form another country which normally would lead into great debt and dependency of another country. Furthermore, growth by experience increases inequalities, not only between rich and poor, but also between rural and urban areas if not distributed equally. Furthermore, speaking about the inequalities of income, the Bhoodan-Gramdan moment touched upon a change of mindset of rich landowners toward the landless, therefore even making a social impact. One could play with the thoughts, that the movement might have had a greater influence by taking into account determinants of growth theories, e.g. invest in human capital, knowledge of agriculture etc.

So in order to answer the question on what makes development good during the 1950s and 1960s, there are two answers arising from this paper. First, argued from a theoretical viewpoint, development and growth is an output of its determinants like productivity, investment and human capital development. On the other hand, considering the Bhoodan-Gramdan movement, sustainable development and economic growth also corresponds to a process of continual replacement and reorganization of human activities, facilitated by investment and motivated to maximize returns.

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2. Growth Theory: The Case of Tractors in Peru

Florian Meyer, Carl Johnson & Roman Sterchi

Introduction

When development economics emerged as an independent field in the 1940s, the view of what constitutes good development was rather simple: Development equals GNP growth. The achievement of economic growth as a development target is omnipresent and any other issue seems to play a subordinate or no role at all. This raises the question, what does growth mean for the lives of people living in underdeveloped countries. How much does income per capita growth rates really say about the development of a society?

This paper seeks to evaluate the Growth Theory by first reviewing the theory and its principal scholars who eventually had substantial impact on the policy making at this time. Secondly, we will present a political program and a concrete project based on the idea of the growth theory. Thirdly, we will evaluate both the presented project and the theory as a whole based on their potential to enhance development.

Theoretical Foundation based on the Harrod-Domar-Model

The Harrod-Domar-Model is seen as the "most important post-Keynesian growth model adopted for developing countries" (Oman & Wignaraja, 1991, p. 12). In their model, Harrod and Domar explain the linkage of income, savings, investment and productivity for the sake of full employment and stable economic growth in developing countries. On this basis, the concepts of 'big push', 'balanced growth' and 'take-off into self-sustained growth' evolved.

The Big Push Theory

Rosenstein-Rodan (1943, p. 208) stated that there needs to be a major injection of investments in order to lead the path for a developing country into economic development and self-sustained growth. This big push, which is accompanied by massive capital expenditures, can only take place if firms expect other players on the market to invest since investment decisions are interdependent (Rosenstein-Rodan, 1943, p. 206). Expectation of industrialization becomes self-fulfilling when state backed investment programs, or in other words a 'big push', is used to kick-start growth through industrialization (Murphy, Shleifer, & Vishny, 1989, p. 1024).

The Balanced Growth Theory

Ragnar Nurkse (1953, p. 4) mentioned poverty and the limited size of the domestic market as the main driver of underdevelopment. The basic logic of this vicious circle argument implies a circular constellation of forces tending to act and react upon one another in such a way as it keeps a poor country in a state of poverty. Nurkse's theory claims that, in order to break free from this perpetual vicious circle, a country needs to enlarge the domestic market by first increasing productivity (Nurkse, 1953, p. 8). Agreeing with Rosenstein-Rodan, Nurkse postulates that an increase in productivity requires large scale investments undertaken in all sectors of the economy (both industry and agriculture) due to their complementarity.

The Take-Off Theory

This very theory can be associated with the American economic historian Walt W. Rostow. In the opening chapter of his book 'The Stages of Economic Growth' he states that every country passes through five sequential stages in order to achieve development (Rostow, 1960, pp. 4-11). Thereby, the advanced countries had all passed the stage 'take-off into self-sustained growth' while less developed countries are still in the phase of 'traditional society' or slowly building up 'preconditions for take-off'. As Todaro and Smith (2011, p. 114) summarize, in order to let developing countries "take-off", the secret lies within increasing national savings and investments to raise productivity and thus net income.

The Policy of the Point Four Program

The years following the Second World War, much of America's foreign aid was focused on the Marshall plan aimed at rebuilding the war-torn Europe. In 1949, Harry S. Truman extended the focus of American aid policy to extensively include developing countries in order to both share West's prosperity to poor people, enlarge the world market, establish the UN and Bretton Woods institutions and to secure developing countries' support in the ideological war against Soviet communism (CFA, 1949, Appx. II). The Point Four Program launched during Truman's inauguration speech in 1949 hoped that a "big push" of capital and technological expertise would allow developing countries to embark upon sustainable long-term growth (CFA, 1949, p. 1).

Firstly, with U.S' inexhaustible and constantly growing technological expertise, the country would send American engineers and experts to Latin American, Asian, Middle

Eastern and African nations (CFA, 1949, p. 6). While the countries would provide the labor capital, the US would provide the sufficient expertise that was necessary for technological advancement. In more advanced areas, assistance in engineering and business administration together with demonstrated pilot projects would introduce complex industrial methods. Secondly, through the World Bank, bilateral aid programs and private investments, affordable credit would be available to implement these projects. To lower the cost burden for the US government, the policy created a model to foster private investment and allowed institutions like the UN and Organization of American States to intervene to offer short-term loans (CFA, 1949, p. 8).

Based on the principles of the growth theory, these large capital and technological injections would allow countries to break the vicious circle that had hindered economic growth. Furthermore, the program acknowledged that a primary focus should be placed on agriculture and forestry and the development of resources and industries. In line with the growth theory, the hope was that a rapid growth in these vital sectors would lead to a sustainable economic development where countries' savings would be sufficient to cover for investments. With these ambitions in mind, the 1950 congressional approval of the Point Four Program saw the start of a great variety of development programs financed by the World Bank and the US (The World Bank, 2016).

The Agricultural Loan Project in Peru

Based on the policy outlined by Truman's Point Four Program, the World Bank's *International Bank for Reconstruction and Development* provided Peru with an agricultural loan project, consisting of 5 loans paid out between 1954 and 1973 (The World Bank, 2016)**.** The five loans had different purposes, ranging from only importing livestock and agricultural machinery to self-development of plantations and construction. In this report, we will focus on the second loan project executed between 1957 and 1958.

The provided loans were distributed in Peru through the *Banco de Fomento Agropecuario del Peru* (hereafter Banco) with the objective to increase investments in agricultural development, generate income for farmers and to diversify the agricultural production. The funds were made available for a wide range of different purposes focusing on machines and equipment, land improvements, and livestock. The main focus, however, laid on machines and equipment, such as irrigation machines, tractors and transport vehicles. If limited to its own financial resources, the Banco would have had to restrict its lending largely to provide short-term agricultural credit of which it was the principal supplier in Peru.

By enabling the Banco to provide medium and long-term credit, the loan program was aimed at making an important contribution to Peru's agricultural development, and to expand to farmers that could not pay back loans in the short-term time frame (IBRD, 1957, p. 8).

There were two main justifications for the project: an existing but slow economic development in the agricultural sector and a growing demand for agricultural credit - conditions which allow credit availability to increase growth (IBRD, 1957, p. 7). While the success of the first loan project improved the economic development and led to a market expansion of farming and stock-raising between 1954 and 1957, it had also increased demand for agricultural products (IBRD, 1957, p. 8). However, inadequate credit facilities hindered farmers to import necessary quantities of equipment or to purchase enough breeding stock. The great demand for agricultural credit was confirmed by the fact that the initial funds of US$5m of the first loan project was quickly used until September 1957 when the Peruvian bank requested another US$5m for further loans. Both rounds of loans led to a growth in production and to an increase in the agricultural sector's gross domestic product (UN, 1964, p. 109). Although this increase can be attributed to a number of factors, such as improved irrigation, relaxed price controls and more effective extension work, there is no question that the increased availability of farm credits for farm development work has contributed to the result (UN, 1964, p. 108).

Evaluation of the Project and the Theory

To evaluate the project, we will first assess the project as a whole by looking at its agricultural and economic outcome, its implementation, and its impact on Peruvian farmers. Thus, we can already gain major insights on positive and negative aspects of the growth theory by assessing this single agricultural project in Peru. However, since one should not overestimate the outcome and findings of a single project in order to analyse an entire theory, we will provide some further reaching insights on the evaluation of the growth theory in the second part of this closing chapter.

The Project

First, considering agricultural and economic outcome, the project has boosted productivity, and therefore enabled generation of income and savings for Peruvian farmers. According to the World Bank (UN, 1960, p. 3), the expansion of the economic development in the fields of farming and stock-raising in Peru between 1957 and 1960 can be credited to the increased availability of farm credits through the Bank's contribution. Furthermore, the loan project has significantly developed the availability of agricultural machinery, irrigation, as well as land and breeding stock, to improve agricultural conditions for Peruvian farmers. The project financed 50,000 hectares of irrigated land; the importation of 1,100 farm tractors, 6,500 breeding stock and 12,000 hectares of permanent plantations (UN, 1960, p. 3). Second, the project succeeded in creating a fast loan distribution process to reach a high number of farmers and to make loans available to farmers from remote rural regions. Special "penetration centres" in the department of Cuzco brought together extension services and credit facilities in areas that had not been reached before. Thus, it is clear that the project created economic value and managed to distribute it geographically successful.

Considering the farmers' evidently increased production, we can evaluate if the project successfully improved the lives of the Peruvian farmers, tangibly in terms of indebtedness and social impact. First, the World Bank's evaluation showed that the bank's proportion of delinquent loans were high between 1957 and 1960 mainly due to poor crop markets, resulting in a financial burden on both the farmers and the bank (IBRD, 1960, p. 3). This was also a result of the farmers' increased exposure to market risks and the government's end to accepting insurance for incident risk of the loans in 1959 (IBRD, 1960, p. 4).

Secondly, the main measure of social impact would not just be the increase in income, but also that the increased income was distributed relatively equally. The unsuccessful income equality distribution is demonstrated by the income gap between coastal farmers and farmers from the Sierra which widened from a ratio of 2.59 in 1954 to 3.02 in 1959 (Hunt, 1967, p. 10). This means that in coastal areas one could earn three times more than farmers in the sierra, which eventually led to large scale migration of farmers to the coast (Hunt, 1967, p. 12). Although with no confirmed connection, the farmers' increased taxation benefited the Peruvian government's increased education expenditures after 1956, purposed to decrease the illiteracy levels and to increase school enrolment rates. However, Hunt's research (1967, pp. 27-28) concludes that the education programme had little effect on literacy levels, especially compared to other South American countries.

All in all, on one hand the loan project provided significant agricultural and economic outcomes and was implemented and geographically distributed successfully. On the other hand, going beyond growth as sole criteria, the project led to increased income inequalities and farmers' potential indebtedness. Thus, the project might have contributed to an increased Peruvian GDP, but did not efficiently bring social impact.

The Theory

While Growth theory has had a formative influence on the theoretical discussion, it has had even more influence on the political discussion (Frenkel & Hemmer, 1999, p. 122). Both research and experience have indicated that the input of physical contribution alone is not sufficient to overcome poverty (UN, 1962), nor has it contributed to significant rise in savings during what might be considered their take-off stage (Kuznets, 1971, p. 224). Instead, research has shown that most countries that have broken the vicious circle have done so after a gradual increase in the rate of investments, while only few broke through after a sharp rise in investments (Fishlow, 1976, pp. 84-85). While we can see that Truman's Point Four Program in some ways further confirms previous research, there are lessons that can be taught from its evaluation. From the Peruvian lending project, we can draw three important conclusions of the project's impact in relation to the Growth Theory.

First, the growth theory unconsciously impeded a sustainable economic development by proposing a pure capital investment focus, especially the 1950s' focus on investing in industrial or agricultural sectors. Thus, ignoring investing in education, health care facilities and sanitation might be a major reason to undesirable outcomes. Today, with a revival of the big push (e.g. The Economist, 2011), there has been a major shift in the allocation of aid from infrastructure and agricultural development to social expenditure, as the sectoral distribution of aid is greatly influenced by donors' preferences (UN, 2006). Thus, the Growth Theory could give desirable outcomes if combined with other efforts.

Second, the Peruvian lending project clearly showed that increase in economic output might not lead to corresponding social development. The Growth Theory scholars' negligence of other issues than GDP growth lead to a discrepancy when evaluating projects out of growth objectives or out of social objectives such as income equality, literacy levels, life expectancy or political freedom (Ulrich, 1999, p. 64). While growth is important, it should be treated as a mean to an end and a project's success measured not by how much income is generated, but by how it is distributed and how this income growth leads to improved living standards.

Third, the Growth Theory's projects constitute of large scale loans that are given to poor countries, which imply questionable consequences. At first, large parts of these loans are often spent buying technologically advanced equipment from developed countries, resulting in the money flowing straight back to the developed country. While the developing country might benefit from economic growth, it is initially left with a huge debt burden that needs to be paid back. Since increased debt burdens have been a recurring problem in large big push projects, it clearly states a fault of Growth Theory. And while debt reliefs help poor countries, they contradict the sustainability of the Growth Theory (IMF, 2014)

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3. Modernization Theory: How Grameen Bank provides financial services to the poor

Kevin Heinzer, Lina Eva Jeromin, Niklas Jönsson, Yao Ma & Christoph Spicher

Theoretical Foundation

"Becoming a modern society is about industrialization, urbanization and rising levels of literacy, education and wealth" (Huntington, 1996, 184). This quote of Samuel Huntington, one of the most famous modernization theorists, shows the two main development goals of modernization theory: First, the theory focuses on *economic growth* embracing the main ideas of the growth theory from the previous decades. Economic growth includes aspects like industrialization and new agricultural technologies. Especially industrialization mainly benefits the privileged classes in a society. Modernists however expect that the benefits of development will "trickle down"[1] from the rich to the poor and ultimately benefit the society as a whole (Byekwaso, 2016, 288-289).

Second, modernization theorists argue that development also includes a uniform and inevitable *transformation process* from a traditional society (the status quo of every developing country) into a *modern society* (von Kimakowitz, 2010, 7). This transformation process is closely linked to values and characteristics of western countries (USA and western Europe) and incorporates ideas and values like social mobility, democracy, and secularisation (Byekwaso, 2016, 288-289). In other words, modernization is defined as a "process with no end that implies the idea of permanent innovation, of continual creation of the new" (Martinelli, 2005, 7).

There are different assumptions for both development goals (economic growth and transformation process), which explain why some countries are underdeveloped and how they could initiate the development process. One of the main assumptions for economic growth is that developing countries have a *lack of capital*, and therefore need financial support to invest in infrastructure and education. Moreover, developing economies are often *rooted in agriculture* with a strong focus on subsistence economy, with little added value. For this reason, modernization theorists argue for a strong focus on *industrialization* and on *modernizing the agriculture sector*, in order to increase profits (Byekwaso, 2016, 288-289).

Policy Formulation

According to modernization theory the reasons for underdevelopment are caused by *endogenous variables* such as the lack of capital or a traditional structures of society. To

[1] The *trickle down effect* is the idea that the accumulation of wealth by the upper class increases the wealth of all other classes (Aghion and Bolton, 1996, 151).

overcome these problems, growth scholars call for financial support and investment from developed countries. However, foreign investment alone is not enough to make a country develop, which gave rise to the idea of seeing the society as a continuous development from a traditional towards a modern society.

Measuring modernization

Important for policy formulation is to find reliable measurements and indicators that can serve as an orientation and provide an understanding to what level a society is modernized. As there are big differences between countries with regard to modernization/westernization, it is hard to distinguish the important parameters from the less important ones in order to assess the level of modernization. Samuel Huntington puts forward six characteristics to the modernization process that have been generally agreed upon (1971, 288): First, there is *industrialization*, a measurement of how far a society has evolved from an agricultural based economy to an industry based economy. Second, *urbanization* measures the percentage of the population living in cities, compared to rural areas. This measurement is tightly connected to industrialization, since new sectors in cities will need labour, whereas industrialized agriculture is becoming less labour intensive. Third, *secularization* measures the impact of religion and tradition on societies. A secularized society will have to find other ways of upholding law and order than through religion and may have to adapt the rule of law. Fourth, the *literacy rate* serves as a measurement of the country's education level. It indicates what part of the population benefits from basic schooling and thus to which extent the country can benefit from a better educated labour force. A fifth, indicator is the level of *political participation* in the society. *Birth control* is the sixth indicator for the modernization process. It is measured by the fertility rate, meaning the number of children a woman gives birth to on average (Huntington, 1971, 321). All these different indicators provide a rough estimation of how "westernized" a society or a country is. Furthermore, it offers starting points for policy formulation for development strategies.

Project Implementation

The Grameen Bank - Banking for the poor

The Grameen Bank is a microfinance organisation and community development bank founded in Bangladesh in 1983. It provides small loans, known as microcredits, to the impoverished without collateral mostly in rural areas. Especially women, unemployed people and beggars, who are mostly treated unequally by the families and the society are targeted by Grameen.

The founder Muhammad Yunus and Grameen Bank got awarded the Nobel Peace Prize in 2006, for their efforts to create economic and social development from below (Norwegian Nobel Committee, 2006). “The credit is a human right”, Yunus said (Yunus, 1999), so that everyone should be able to get a loan. Meanwhile, the poor know best how to improve their own situation. Yunus thinks that “loans are better than charity to interrupt poverty, because they offer people the opportunity to take initiatives in business or agriculture, which provide earnings and enable them to pay off their debt” (Yunus, 1999). People have endless potential, and unleashing their creativity and initiative helps them in order to end poverty (Grameen Bank, 2006b).

Making group lending work through cultural change

Grameen uses the so called *group lending* mechanism in order to provide credit and banking services to the rural poor. They are “arrangements by individuals without collateral who get together and form groups with the aim of obtaining loans from a lender” (Armendáriz & Morduch, 2005, 85). Groups normally meet on a regular basis (typically every week) with a microfinance institution loan officer. On these occasions interest of past loans will be repaid and new loans disbursed. The participants collectively guarantee the loan to replace the lack of collateral. Since the whole group has to back up in the case of default of a single group member, otherwise no future loans will be granted, participants have an interest in ensuring everyone pays back their loans. This joint liability mechanism resolves the adverse selection problem (only bad risks staying in the bank), and the original lender’s tasks, such as screening potential borrowers, monitoring efforts and enforcing contracts, are transferred to the group. In return, loans are offered to people who would otherwise suffer credit constraints (Armendáriz & Morduch, 2005, 85).

What sets Grameen’s approach apart from other microfinance institutions is a sort of social charter - the so called *16 Decisions* (all Decisions can be found in the Appendix of this paper) - aiming to make micro loans more beneficial and sustainable. Instead of legal instruments, like a written loan agreement, the 16-point charter encourages social and personal change by asking prospective borrowers to commit to the set out goals by memorizing and reciting the 16 Decisions at the recurrent group meetings. When having a closer look at it, there are parallels to what has been defined as important factors for economic growth as well as the modernization process (cf. point 3: Policy Formulation): For instance, Grameen borrowers are encouraged to keep families small (birth control, Decision 6), to educate their children and improve literacy rates (literacy rate, Decision 7), to renounce to dowry (secularization, Decision 11), and to undertake collective investments in order to strive for higher income (economic growth, Decision 13).

It is clear that microfinance is not a typical example for a development project based on modernization theory. Nevertheless, there are several key factors from modernization theory which can be identified in the approach how Grameen serves the rural poor in Bangladesh: It is not only about getting financial services to the rural population, but also about the transformation process of values and social behaviour in order to develop towards a modern community. Both modernization theory as well as Grameen's approach to banking is based on the same pillars, which are economic growth and societal modernization.

Project Implementation

Strengths of Grameen Bank

The Grameen Bank had an important impact on the living conditions of the people in Bangladesh. Before the Grameen bank increased its popularity in the country, the financial world was totally different: Within a muslim society it was almost impossible for women to get a loan, unless with an excessive interest rate. In 1987 the interest rates could go up to 150% p.a. That´s why it was not affordable for the majority population in Bangladesh to lend money. Furthermore, the reimbursement rate was 19% in 1993. So only two to three people out of ten were able to pay their loan back. However, Grameen Bank changed it: they already had a reimbursement rate of 98,3% in 1994 and compared to other banks they had a very high percentage of female customers 97% in 2015 (Hohendahl, 2006).

All in all Grameen Bank created a big change in the financial world, especially in Bangladesh. Their business model has many strengths. The first one is the high reimbursement rate, which differs fundamentally to other lending banks in Bangladesh. Additionally, it helped the Banking sector to the empowerment of women. Before the founding of Grameen, the loans were given only to men and all responsibilities were held by them. Moreover Grameen Bank gives loans to "the poorest of the poorest". Without this bank they would not have access to any financing possibilities to run their own business (Rickman, 2009). The most important advantage for the borrowers is the significant low interest rate compared to others, that is the reason why the poorest people in Bangladesh have the chance afford a loan (Hohendahl, 2006).

Weakness of Grameen Bank

One issue to concern is the status of the women in the family. “Behind the doors” it is still the same and the husband only sends his wife to get to loan. Afterwards, the husband becomes the person who decides how to use the money. There are cases that the husband wasted the loan for his own needs and the wife had to pay back the interest rate somehow. Another weakness of Grameen Bank is that if someone is in trouble and cannot pay back the interest rate, it is a difficult situation for the whole community. Because they as a group are responsible for all loans and their reimbursement, but nobody of them has spared money to support another member. In the worst scenario, the stress of default could lead to suicide (Bateman, 2013).

Another problem is that other banks want to make money in the procurement of microcredits. But they do it in a “dishonest” way and are trying to exploit the system. Some banks pushing huge amounts of microcredits onto poor people to generate quick profits. This leads to a lot of people which could not afford to pay their loans back (Bateman, 2013).

Appendix

16 Decisions

1. We shall follow and advance the four principles of Grameen Bank: Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year round. We shall eat plenty of them and sell the surplus.
5. During the planting seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimize our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tubewells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughters' weddings. We shall keep our centre free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively.

Source: www.grameen.com/16-decisions/

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4. The Dependency Theory: A Case of Brazilian Development Strategy

Alexander Delgado, Philipp Hürlimann, Gabriel Marquardt, Nicole Rufer, Reto Schleier

The Foundation of the Dependency Theory

The Dependency Theory changed the way of thinking in studying underdevelopment. Dependency theorists abolished the assumption made by modernization writers that the unit of underdevelopment is mainly caused by internal factors such as domestic, cultural and institutional features of a country. Even though these features may help to differentiate a society, they not explain the lack of modernity in underdeveloped countries (Valenzuela & Valenzuela, 1978). Dependency approaches – which are the first academic development approaches originating from developing countries – assume that the development of a society can only be understood in connection with its historical insertion into the worldwide political-economic system which emerged with the wave of European colonization of the world; or in the words by Osvaldo Sunkel (1969): "Dependency is an explanation of the economic development of a state in terms of the external influences – political, economic, and cultural – on national development policies."

The Dependency Theory developed out of two economic thoughts, Marxism and Latin American structuralism, associated with the UN Economic Commission for Latin America (ECLA) (Love, 1990). This paper will focus on the theory stream of structuralism. It is not surprising that the Argentine economist Raúl Prebisch, the Director of the United Nations Economic Commission for Latin America (ECLA), can be pointed as the forerunner of the structural dependency school. The ideas developed by Prebisch derived from his understanding of how the great depression of the 1930s has affected his native Argentina, and were further reinforced by the work of the German UN economist Hans Singer.

The central argument of the Dependency Theory, also known as the "Prebisch-Singer Thesis", is the separation of the world into a "center" of developed industrialized countries and a "periphery" of those that only produce raw materials and agricultural goods. By their early technical progress, the industrialized countries organize the system to serve their own interests, leaving the peripheral countries with few options, as they are dependent on their natural resources for production and exports. This leads to an unequal relation in trade, since the peripheral countries that produce and export the raw materials, do not retain the advantages from technology development (Prebisch, 1984). This process enchains the periphery towards a long-term dependency relation. According to Frank (1989), underdevelopment is not a transitional stage. It is rather due to the relationship between the centers and periphery that a process of „development of underdevelopment" has been introduced (Frank, 1989). As a result of the influence of structuralism thought, many Latin American countries have adopted strategies and policies nominally conductive to autonomous, self-sustaining development. In essence, they sought to diversify exports and accelerate industrialization through import substitution (Sánchez, 2014).

The next section will introduce the example of Brazilian policy, which will then be followed by a thorough analysis of the case of Embraer, a leading company in the aerospace industry and a child of Brazilian import substitution policy. Finally, this paper will conclude with a critical analysis of Brazilian import substitution and some final thoughts on the Dependency Theory.

Brazil's Import Substitution Policy

Import Substitution Industrialization (ISI) is a development strategy aiming at the transition from agriculture to a manufacturing-based society. The state intervenes by implementing trade barriers to protect "infant industries" like consumer durables, textiles, automotive or processing of agricultural or raw materials. Brazil has experienced different stages of import substitution industrialisation during the last century. Before the 1950s, some first steps of import substitution had already been undertaken. However, these happened to be relatively unstructured, market-driven and reactive towards external shocks. Even though Brazil was already participating in international trade, the country was still largely dependent on primary goods. (Baer & Kerstenetzky, 1964)

With the Dependency Theory emerging in the fifties, Brazil's president, Juscelino Kubitschek, was a convinced supporter of development through import substitution. Kubitschek´s approach with the slogan "50 years of progress in 5" initiated an ISI plan with various monetary (e.g. multiple foreign exchange rates) and institutional policies (e.g. import licensing, FDI promotion). Additionally, state owned companies and the BNDES, the Brazilian development bank, followed target plans in different key industries, such as the petrochemical or automotive sectors (Hudson 1997). These programs triggered a self-sufficient industrialization process, which led to economical and societal advancement. As average annual GDP growth rate exceeded 7%, public and academic societies were convinced of the ISI development strategy. (Cardoso, 2009)

Between 1964 and 1980, the "Brazilian Miracle" demonstrated the effectiveness of the structuralist approach. Double-digit GDP growth rates, high demand for construction and consumer durables, the development of capital and manufactured goods production and further liberalization of the financial markets could be observed (Baer, 2008).

Nevertheless, the IPI policies included massive public spending, which are hard to account for since exact data on public spending are hardly available. However, the "Brazilian

Miracle” era ended abruptly in the eighties. The path was opened for a “lost decade”, which indicates that Brazil paid the price for public spending by economic stagnation and skyrocketing inflation. The crisis was not overcome until the early nineties, when the “plano real” introduced a new currency and several fiscal reforms. These included the easing of ISI policies and therefore to a reopening of the Brazilian market. (Loman, 2014)

Today, import substitution policies are still vital to the Brazilian government programs: high import taxes, defensive trade mechanisms and the stimulation of certain industries like the pharmaceutical and medicinal sector are showing the reinvigorated role of the state in economy with its new development agenda. Future prospects have become uncertain with the recent impeachment of Brazil’s president and current economic turmoil.

Industry Development: The Case of Embraer

Embraer is a Brazilian aerospace conglomerate that produces commercial, military, executive and agricultural aircraft. The company also provides aeronautical services such as maintenance or personnel training and is a leader in industry research and development (Embraer, 2015). In 1964 the Brazilian military government developed the ISI policies one step further by focusing on science, technology. Due to Brazil’s enormous landmass, fast and effective transportation means were necessary. As part of this policy, Embraer was founded in 1969 in order to achieve infrastructural and intellectual independence from the international aerospace industry. (Embraer, 2016a; Goldstein, 2002)

Especially in the early stages, special privileges were awarded to Embraer by the Brazilian government (Goldstein, 2002). In order to boost turnover growth, federal agencies were urged to purchase aircrafts from Embraer rather than competitors. Additionally, Embraer would be exempted of import taxes on raw materials, parts and other equipment that had to be imported to build the industry. Interestingly, in prospect to improve Embraer’s financing and investing capabilities, other Brazilian corporations could invest 1% of their federal income tax obligations each year in Embraer’s shares. (Ghemawat, Herrero & Monteiro, 2009)

Nowadays Embraer is a globally leading manufacturer of small-sized commercial aircraft in the niche of up to 130 seats. The company has delivered aircraft to over 90 commercial airlines in more than 60 countries. Embraer employs more than 19.000 employees, creating approximately 6 billion USD in net revenue (Embraer, 2016b). The case of Embraer demonstrates the practical consequences of the Dependency Theory and illustrates the implementation of measures in the context of the Brazilian Import Substitution Policy.

Assessment of the Embraer Case

In this part we try to assess whether Embraer might be considered a successful example of the Brazilian ISI policy. In order to analyze the case thoroughly, the assessment is approached from four different perspectives: social, financial, legal and sustainability.

From a social perspective, Embraer might be considered as a very successful case. Founded in São Jose dos Campos, a small town in the state of São Paulo, Embraer has become one of the region's most vital entities. The foundation has attracted numerous stakeholders such as industry suppliers, universities, hospitals and regulatory bodies. Today, São Jose dos Campos is home to Brazil's aerospace industry, including numerous jobs and a prosperous environment for its increasing number of inhabitants (Fernandes et al., 2011). Historically, Embraer has employed on average 10'000 people for an average income of 1'500 USD per month, leading to an accumulated total income of 8.5bn USD gained by Embraer employees over the past 50 years of Embraer's existence (Ghemawat, Herrero, & Monteiro, 2009). Therefore, around 45'000 household members were able to live directly from Embraer's wage payments, considering an average household of 4.5 (Marteleto, 2010). It is important to consider as well that indirect and induced effects from the creation of Embraer must have benefitted many other stakeholders such as research assistants, school teachers, road workers and many more.

Assessing Embraer from a financial perspective, it is harder to draw a clear conclusion. Embraer did not make any considerable profits until its privatization and the easing of state intervention in 1994. In the period of 1985-1997 the company has accumulated total losses of 1.5bn USD (Goldstein, 2002). After its privatization, Embraer has yielded accumulated profits of 5.5bn USD between 1998-2015 (Embraer, 2016). However, the company still benefits from tax reliefs granted by the Brazilian government, amounting to 75m USD per annum over the past five years, making up 44% of Embraer's average profit during the same period (Louro, Recchia, & Seifman, 2016). It is questionable though, how much of the company's profit really stays in Brazil. According to Louro, Recchia and Seifman (2016) paid out profits from the year 2015 were shared among Brazilian governmental institutions (only 6% of all shareholders), foreign investors (at least 27%) and to stockholders who hold shares that are traded at the stock exchanges in New York and São Paulo (remaining 67%). Nonetheless, special "golden shares" with veto rights allow the Brazilian government to be in control of important strategic decisions. Furthermore, the Brazilian government elects three representatives to the board of directors, allowing to ensure that most of Embraer's jobs stay in Brazil. According to Embraer's Annual Report (2015) 88% of employees work in Brazil. While governmental income can be estimated at a total of around 10bn USD over Embraer's entire lifetime, the governmental spending has never been disclosed. Yet, it can be assumed that the funds for the establishment of Embraer must have been immense.

From a legal perspective, it is important to mention that the Brazilian government has put in place an export-supporting program (PROEX). This program subsidized financing to Embraer's customers. The Canadian government, lobbying for Bombardier (the Canadian competitor of Embraer), accused the Brazilian government of violating WTO agreements. Vice versa, on behalf of Embraer, the Brazilian government also accused the Canadian government for having similar export financing programs in place, resulting in an international dispute between the two countries. (Ghemawat, Herrero, & Monteiro, 2009)

From a sustainability perspective it shall be recognized that Embraer is part of the RobecoSAM sustainability index, achieving good grades due to Embraer's environmental, social as well as corporate governance efforts (RobecoSAM, 2016).

In conclusion, with high probability the Embraer case can be considered a very successful example of Brazilian ISI policy despite unknown governmental spending, because the large social benefits from the creation of an entire aerospace industry with thousands of jobs should most probably outweigh potential governmental net spending.

A Critical Reflection

In order to conclude our paper, this section aims on a critical reflection of Brazil's ISI policy and on the Dependency Theory itself. Was Brazil's ISI approach helpful for a sustainable development in the long run? What are possible downfalls of this protectionist approach? In this context, what are the benefits created by the Dependency Theory and which aspects might be questionable?

In his famous promise „to achieve fifty years of progress within five“ Juscelino Kubitschek proposed the creation of a Brazilian automotive industry as a main pillar of the ISI development plan. Not only should the creation of an automotive industry spurt economic development, create jobs and offer modern means of mobility, it should also undermine the country's independency from the developed world. Cars "made in Brazil" would be a symbol of national pride, achievement and development. (Jones, Knoop, & Reisen, 2010)

Even though Brazil's efforts to raise a national automotive industry may be considered successful since it became the first important national production industry, pushing up employment and contributing to independence from commodity exports, there are some arguments that must be considered to critically evaluate Brazil's import substitution policy. High government spending in form of incentives and regulation may be pointed out in the short run (Jones, Knoop, & Reisen, 2010). In the long run, lack of productivity, quality control, investment and international competitiveness happened to pose significant difficulties to the Brazilian automotive industry. In the late 80s it took 50 hours to produce a small car in a Brazilian factory, while in Japan the same car was assembled within 13 hours (Womack, Jones, & Roos, 1990). Import of foreign cars remained forbidden until the 90's, when a political wave of liberalization eased the restrictive import substitution policy. Nevertheless, importing cars in Brazil is still highly disadvantageous today because of high tax burdens and bureaucracy. Car producers have become used to sell lower quality models, and customers have become accustomed with driving lower quality cars while paying considerably high prices. Regulatory efforts on tax collection and import substitution neglected the needs for sustainable quality and safety regulation. Important safety components such as Airbags, ABS and hydraulic steering systems have not been made mandatory until 2014, while in most developed countries these items are obvious regulatory requirements. (Azevedo, 2012)

Some important positive and questionable aspects of Brazil's ISI Policy may be analogous in the case of Embraer. Mainly job creation, industry development and the creation of national pride may be identified on the positive side. In contrast, especially high government spending may be pointed out as questionable. Notably, in the case of Embraer we did not find a decline in productivity, quality and competitiveness because the company was exposed to international competition upon privatization.

Having reviewed the Brazilian case of development through import substitution, the Dependency Theory revealed the positive aspect of bringing a new mindset among international development theorists. The case reflects how developing countries became aware of the center-periphery relationships and which policies may be taken as countermeasures. As a theory from developing countries for their own development, the Dependency Theory is the first of its kind. However, some questionable aspects remain unanswered. Specifically, an appropriate timing of easing state intervention has yet to be found. This task could be further investigated on in academic research and might be useful for further developing the Dependency Theory.

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5. The Washington Consensus and the Privatization of the Telecom Industry in Argentina

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Introduction

Considered as one of the most influential development theories, the Washington Consensus surged in the end of the eighties and proposed a neoliberal policy as a source of economic growth and development. This approach was adopted mainly in Latin America, manifesting both positive and negative consequences. As a result, a broad discussion about this theory originated, analyzing whether it was able to enhance the development of a country as a whole.

This paper aims to provide insights about the Washington Consensus theory and analyzes to what extent countries were able to develop under this framework. Firstly, the Washington Consensus is explained, followed by its application to Argentina under the Menem governance. Then, a concrete measure taken by this government will be critically analyzed: the privatization of the telecommunications sector. Lastly, taking into account the case explored, the positive and negative impacts will be subject to a critical analysis and the effectiveness of this theory will be evaluated.

Washington Consensus Theory

The end of the eighties was marked by several economic changes worldwide: The economies of the United States of America (USA) and Great Britain were shaped by the neoliberal ideology, under the Reagan and Thatcher governments. The Latin American countries were suffering from a debt crisis and China and India were growing. Additionally, the end of the decade culminated with the fall of the Berlin Wall, seen as a proof of failure of communism by the Western World (Gore, 2000, p.795).

The Washington Consensus, was designed under this framework. This term was used the first time by John Williamson in 1990 to refer to “a list of ten specific policy reforms, which I claimed were widely agreed in Washington to be desirable in just about all the countries of Latin America, as of 1989” (Williamson, 2004, p.1). These policies were characterized by the importance given to the role of free markets (instead of the state) in the development of a region[2].

[2] for details see appendix A

However, as time went by, the term Washington Consensus was used to address the policies set by the Washington based institutions (meaning the International Monetary Fund (IMF), the World Bank, and the US Treasury Department to the developing countries in general, in order to stimulate their economy and foster growth (Williamson, 2004, p.1).

This set of recommendations was rooted in three pillars: macroeconomic stability, liberalization and privatizations. Firstly, macroeconomic stability was believed to enhance a propitious climate for investments. Secondly, regulations were considered to be an obstacle to the well-functioning of the markets. On the other hand, a liberalized economy should lead to a more efficient allocation of resources, especially capital, considered essential for the development process. Lastly, there was the belief that free markets are more efficient on enhancing growth than a market controlled by the State, resulting in a market dominated by private owned companies (Williamson, 2004).

An assumption held by the Washington Consensus was that an open economy ruled by market forces, as applied in the developed countries at the time, was also applicable and beneficial for developing countries. Nevertheless, the Washington Consensus' policies were scrutinized due to the results in Latin American countries, such as Argentina.

Structural reform policies in Argentina under the first Menem administration

Menem took office as President of Argentina in 1989. At the time, the country was facing a deep economic crisis, which climaxed in hyperinflation in mid-1989. The resulting political and social crisis forced Menem to adopt a reformist course. As the population was receptive to new experiments, due to their vulnerable situation, there was an opportunity to implement the new economical and developmental ideas that were prevailing at the time: the Washington Consensus policies. In this way, a set of reforms such as trade liberalization, macroeconomic stabilization measures, privatization, deregulation, and related market-oriented policies were taken under Menem governance (Bambaci, Saront, & Tommasi, 2002, p.75).

Overall, Argentina was considered as a good follower of the Washington Consensus reforms by the Washington based institutions: Argentina was a fast and profound reformer in the 1988–1993 period when compared to other countries, especially considering privatizations and trade as well as financial liberalization. However, when considering labor markets liberalization and fiscal reforms, Argentina was outperformed by many other countries (Lora, as cited in Bambaci, Saront, Tommasi, 2002, p.76).

Although a neoliberal agenda had been adopted, two new inflationary periods occurred in 1990, leading to the resignation of two Ministers of the Economy. As a solution, new efforts were put on the Washington Consensus reforms, especially on a monetary and fiscal level. This new reform plan was enshrined on the Convertibility plan of 1991. In this way, the Argentine peso was pegged to the USD (Convertibility Law), the tax system was simplified and the tax collection system improved. In parallel, the liberalization of the markets, and the privatization agenda were kept on (Corrales, as cited in Bambaci, Saront, Tommasi, 2002, p.76).

Subsequently, macroeconomic stability and economic growth were the immediate results. Overall, inflation decreased significantly, the growth of GDP per capita also increased but the unemployment rate maintained high[3]. However, problems such as corruption or embezzlement of public funds continued being an ongoing practice.

Although in 1994 the Tequila crisis[4] had caused some skepticism about the Washington Consensus policies worldwide, Argentina continued following these policies (Bambaci, Saront, Tommasi, 2002, p. 76).

Privatization of the telecommunications sector in Argentina in the 90s

The sale of ENTel, Argentina's key player on the telecom services market was the first step in the wave of the privatizations occurred in the country in the 1990s.

By the end of the 1980s Argentina's telecom sector was characterized by a poor level of technical condition: obsolete hardware and inefficient network structure resulted in substantial growth of operating costs (Herrera, 1993, p.48). This, together with increasing

[3] for details see Table 1 in appendix B

[4] Crisis on the Mexican balance of payments that led to its currency devaluation. As Mexico was following the Washington Consensus policies, this crisis was considered as proof of the neoliberal agenda's failure.

amount of funds needed to service the outstanding foreign debt, which constituted around ninety percent of company's total balance sheet debt in the mid-80s (Emmons, 1996, p.4), put the company inside the vicious circle of not being able to conduct a modernization program and increased its operational efficiency.

On August 17, 1989 the Congress passed the law granting president Menem extensive rights to conduct the privatization plan. Shortly thereafter, on September 12, 1989, the exclusive right of the state for telecommunication domain was cancelled by a special decree. According to the president, the goal of the new strategy in the telecom sector was to "demonopolize and deregulate telecommunications services to make them more efficient for the benefit of the users." (Emmons, 1996, p.5).

In the beginning of 1990, the negotiations between the government and potential investors resulted in an executive presidential decree containing main terms and provisions regarding the privatization process. According to the decree, ENTel would be divided into two independent entities, covering the northern and the southern parts of the country respectively. Both companies were granted exclusive rights for providing basic telephone services in their respective regions for seven years after the deal was closed, and additional three years if certain goals set by the government were met. Also, these two newly created enterprises would jointly have exclusive rights to provide international and cellular services for the predetermined number of years (Emmons, 1996, p.5). The exclusivity rights promised for the potential buyers came with some conditions[5].

Upon the announcement of the privatization plan, fourteen consortiums acquired the set of the bidding documents for $20,000 each. However, only three companies participated in the final bidding process. In the middle of 1990 the winners were announced: *Telefónica of Spain* and *The Bell Atlantic* were awarded the southern and northern companies respectively. However, the latter consortium withdrew its offer due to inability to raise the necessary amount of funds and securities included in the payment plan. Subsequently, the Menem's administration rushed to find another buyer and engaged into negotiations with *France Cable* and *Radio/STET*. After the revision of the tariff plan stipulated in the original decree (increasing call prices by 28% from the initially agreed level of 120% increase), the parties came to an agreement and the first stage of the privatization was completed by the

[5] for details see appendix C

end of 1990 (Emmons, 1996, p.7). The final deal structure implied the sale of a sixty percent stake of the original corporation for the total price of around five billion US dollars. The biggest part was in Argentine sovereign debt and counted at face value (Wellwnius, Stern, 1996, p. 460)[6]. The sale of the remaining thirty percent through international public offering (Lavelle, p.102) was completed by the end of March, 1992 and raised about two billion US dollars (Emmons, 1996, p.10).

Impact Generation

Since well-functioning telecommunication services are essential for modern communication and therewith high productivity, it can certainly be said that privatization had the chance to bring positive development to Argentina. The situation of the state-owned ENTeL with "outdated communications, exorbitant costs, poor telephone services, and incompetent personnel" (Rubinstein, 2010, p. 315), offered a lot of room for improvement.

The decision by the government under president Menem to split the telephone sector into two geographically divided regions, and giving them monopoly privileges for seven to ten years was not the radical privatization – liberalization approach, but had the aim to "realize efficiency gains and social benefits for the public" (Rubinstein, 2010, p. 315). The duopoly approach was chosen, so that performance, service, and technology could be compared and the investing companies had the security for the capital-intensive investments.

As positive impacts of the privatization, both phone companies, *France Télécom* and *Telefonica*, were profitable within a few years. Moreover, waiting times for line activation and repair were massively reduced and the phone network was upgraded to global standards (Bentolila, 2000, pp.11-12). The transfer contract ensured the expansion of the network as well as the quality of service, especially for areas which were not densely populated, and therefore were not served before (Bentolila, 2000, p. 12).

However, there were some negative effects of the privatization. Workers who protested against the privatization were dismissed. Connection rates increased in the years

[6] "$214 M payment in cash up front with $387 M in installations over a six-year period" (Wellenius & Stern, 1994, p.460)

before the privatization and were not reduced as the privatization went into effect. Within a year after privatization a new contract was signed between the government and the companies that lowered the prices for businesses and increased the prices for the private sector, diminishing the purchase power of the latter (Herrera, 1993, p. 52).

Critically analyzing these facts, it should also be noted that the instability in the institutional environment (ongoing economic crisis and domestic political instability) pushed president Menem to conduct the privatization as fast as possible. Therefore, Menem used unprecedented decree power and passed on putting a sufficient regulatory framework into place from the start, that was constantly changing, which resulted in contradicting laws. These flaws in institutional design of the privatization should also be considered, and certainly had a negative impact on the perceived credibility of the policy reforms adopted and therewith also the sale price of ENTel. In combination with the bad general condition of ENTel, the sale price of ENTel stakes was massively undervalued; Argentina received the lowest price per line installed in Latin America.

Moreover, it is questionable whether the aim of de-monopolizing was met, as competition was reduced to a minimum under the duopoly: very long exclusivity periods in a first stage followed by very high entry barriers, no specific interconnection requirements, and very modest targets for the private companies. Therefore, the privatization of the telecom industry did not fully meet the Washington Consensus' criteria, as there was no real competition in the market even after the completion of the privatization.

Analyzing the results of this reform policies in Argentina, the Washington Consensus policies definitely brought some positive aspects to the country: their inflation problem was controlled; GDP per capita started to increase; the poverty rate[7] decreased[8]. However, on a social level, the reforms seem to present different results. The unemployment rate increased during the Menem governance and the Gini ratio (after slightly decreasing at first) increased substantially at the end of Menem government, showing an increase in inequality[9].

Evaluating the Washington Consensus as a whole, criticism has started with the tequila and the Asian crisis because countries which followed structural adaptations

[7] "Ratio of the number of people whose income falls below the poverty line; taken as half the median household income of the total population" (OECD, 2016).

[8] for details see Table 1 in appendix B

[9] for details see Table 2 in appendix B

recommended by IMF and with healthy macroeconomic data were affected by these crises. Stiglitz (2006, p. 4) argues that countries which did not follow the recommendations of the Washington Consensus developed more positively than those who did. Furthermore, he criticized that the Washington Consensus was based on idealizations like pure competition and transparency. He identified four main points of critique: firstly, public withdrawal does not always lead to private supply offerings; secondly emerging markets must be open for all potential suppliers after public withdrawal; thirdly, the trickle-down-effect does not apply for all countries, especially not when they are still in the developing stage; in this case economic growth leads to more social inequality, which in turn leads to political instability and finally to economic damage; adequate social policy can help avoid this; fourthly, conditions for credit approval processes demand rigorous austerity which might worsen crises up to depression.

Dani Rodrik (2006 & 2007), a Turkish Economist, argues that some principles of the Washington Consensus, like proprietary rights, hard currency, public solvency, and market-oriented incentives are necessary for successful growth. However, the recommendations of the Washington Consensus were not able to establish these principles because they did not consider local circumstances and bottlenecks.

Conclusion

The Washington Consensus theory provided policy reforms that are economically valid. In this way, they should be able to enhance the growth and development of a country. However, it should be taken into account that the effectiveness of these reforms depend on a large number of variables, as the legal framework and context they are implemented, the prevailing political system, the social and cultural context of the country. The privatization of ENTel proved that in the development field the framework in which policies are implemented matters a lot and there are no universal rules.

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Appendix

A. Set of 10 policy reforms suggested by John Williamson, in 1990

1. Fiscal discipline, to avoid a significant fiscal deficit and subsequently high levels of inflation (the opposite situation of Latin America countries);
2. Redirection of public expenditure policy in a propoor and progrowth way by investing on primary health care, primary education, and infrastructures to improve the income distribution and foster growth;
3. Tax reform by extending the tax base but moderating marginal rates;
4. Interest rate set by markets in order to people get credit not based on State impositions but on market forces;
5. Competitive exchange rate to foster exports and growth;
6. Trade liberalization, especially eliminating the quantitative restrictions regarding imports and substituting them by tariffs that should gradually decrease;
7. Liberalization of inflows of foreign direct investment by abolishing the existing barriers;
8. Privatization of state owned companies, a practice that was increasingly unpopular in Latin America;
9. Deregulation by eliminating the entry/exit barriers into the market in order to promote competition;
10. Security for property rights at lower costs in order to make them available to any enterprise.

B. Economic data for Argentina between 1989 and 1998

Economic indicators	**1989**	**1998**
Inflation rate (CPI)	4 923,5%	0,7%
Unemployment rate	7,3%	12,4%
Real GDP per capita growth	8,8%	2,5%
Poverty rate	47,3%	25,9%

Table 1: Economic indicators for Argentina (Saxton, 2003)

Year	1991	1992	1993	1994	1995	1996	1997	1998
Gini index	46,76	45,47	44,86	45,92	48,9	49,52	49,11	50,73

Table 2: Gini index for Argentina (The World Bank, 2016)

C. Conditions imposed on the decree for ENTel privatization, 1990

Firstly, the holders of the licenses were not allowed to cross-subsidize competitive domains with the proceeds from the monopoly part. Secondly, the government would deploy special regulators to avoid that the rights of the new entrants into the competitive market would not be breached. Thirdly, the licensees were obliged to invest the profits from the international services into the local telecom infrastructure. Other conditions included providing price preferences for the domestic suppliers in the course of the obligatory bidding for the hardware purchases in excess of $500K (Emmons, 1996, p.6).

The decree allowed the ENTel's successor companies to substantially increase service fees for about 120% following the privatization as well as subsequently raise prices at the rate of inflation during the period of exclusivity. Also, the government brought the tax structure applicable to the northern and southern companies in line with the generally accepted in Argentina corporate taxes regulations (Emmons, 1996, p.5).

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6. The Post-Washington Consensus: Theory & The Greek Case Study

Milana Bubyakina, Quentin Jérémy Clerc, Michael Knuchel, Marco Sansoni

Theoretical Foundations

The emergence of the Post-Washington consensus (PWC) built on the ashes of the Washington consensus (WC) is mainly due to the contribution of Joseph Stiglitz. Indeed, his critical position as Chief Economist at the World Bank renders him especially influential, even though other major academic and policy-making figures have also made important intellectual contributions to the PWC (Öniş & Şenses, 2005). The PWC has to be understood as an enlargement of the WC which uses a broader set of instruments in order to achieve much broader goals (Stiglitz, 1998). However, it is essential to recognize that the neo-liberal foundations are not altered, but rather extended to areas of a more political nature. In other words, it suggests that standard policy reforms cannot be successfully implemented if institutional conditions are poor.

The aim of the WC was promoting development through economic growth, focusing on the increase of GDP per capita. In contrast, the PWC is much more explicit on poverty and distribution concerns (Serra & Stiglitz, 2008). Relying on the idea that for a development strategy to be successful and sustainable over the long run, most citizens should benefit from the fruits of growth. Hence, development needs to be sustainable, equitable and democratic to result in an increase in living conditions of most citizens.

This change of mindset occurred because of countries' experiences pointing to limitations of market fundamentalism as advocated by the WC. Examples in Latin America and Africa shed light on several shortcomings of an economic policy entirely based on liberalization, privatization and deregulation: Dysfunctional public policies, market inefficiency and incompleteness, lack of competitiveness and democratic deficits (Serra & Stiglitz, 2008). Meanwhile, outstanding development which took place in several South East Asian economies was largely stimulated by government interventions and thereby obliged proponents of the neo-liberal agenda to improve their policy recommendations. Thus, it broke the existing "state vs market" dichotomy and recognized the essential role of the state for putting in place the appropriate institutional foundations for markets (Stiglitz, 1998).

Achieving macroeconomic stability by controlling inflation and managing budget deficits are key elements of the WC. However, it ignores the importance of stable output and employment (Stiglitz, 1998). The PWC recognizes the importance to mitigate adverse short term social and economic consequences of a market economy with the appropriate governmental policies.

The dogma of liberalization and deregulation suggested by the WC became an end in themselves. However, free markets did not function efficiently and often led to inequality and instability. Stiglitz advocated the need of a regulatory framework, leading to an effective financial system, ensuring both competition and prudential behavior (Serra & Stiglitz, 2008). In addition, the PWC also relaxes the privatization doctrine advocated by the WC. Indeed, Stiglitz noticed: “When competition is lacking, then creating a private, unregulated monopoly will likely result in even higher prices for consumers” (Stiglitz, 1998, p. 23). Therefore, governments need to play a “market-enhancing” role by setting the appropriate institutional infrastructures for privatization to achieve public objectives of efficiency and equity.

In conclusion, the participation of governments in successful development leaves no doubt. While the WC promotes a minimalist, non-interventionist state, the PWC acknowledges the state’s role in setting “appropriate regulation, industrial policy, social protection and welfare” (Stiglitz, 1998, p. 27). Moreover, governments must be transparent and effectively manage scarce public resources focusing on areas where the private sector is not likely to enter.

Policy Formulation

“The Barcelona Development Agenda was an important starting point in the formulation of a new and better system of policies – policies that offer a more flexible approach to development, with broader concerns for equitable and sustainable development – and the creation of a better system of global governance”

(Serra & Stiglitz, 2008, p. 15)

In September 2004, a group of economists from developing and developed countries discussed in Barcelona the issues mentioned in the above quote (Ajuntament de Bareclona, 2004). It represents the last step in the formulation of a policy to empower development worldwide. In summary, on top of the neo-liberal foundations of the WC, the policy of the PWC is extended by the following six key elements: (Serra & Stiglitz, 2008, pp. 53–54)

1. Involving those in the developing world in an important and meaningful way
2. One-size-fit-all policies are doomed to fail
3. Countries should be given room to experiment, to use their own judgment
4. Balanced role for markets and governments is needed
5. Development requires strengthening of both market and state institutions
6. Success is to be measured by a broader set of measures

Project implementation

"It has been obvious for some time that the creation of the euro was a terrible mistake" (Krugman, 2015). Turmoil in Greece due to unbearable government debt caused long lasting political and social consequences. Greece still waits for full recovery back to and above the pre-crisis level. In addition, it was the first developed country to fail on IMF credits for 50 years (Steinhauser, Dendrinou & Stamouli, 2015).

Even though the crisis begun in 2007 in the USA and was followed by a downgrading of Grace by rating agencies in 2009, the roots lie much deeper. The economy suffered pervasive control by the government, a large and inefficient public administration, tax evasion and political clientelism (Nelson, Belkin & Mix, 2011). These factors weakened the economy and led to high interest rates to be paid by the government. Hence, its old currency, the Drachme, continuously devaluated over time. However, this mechanism of external devaluation was unavailable once Greece introduced the Euro. Hence, Greece gave up monetary independency and took over the monetary policy set by European center countries such as Germany which traditionally followed a conservative approach (Nelson, Belkin & Mix, 2011). In consequence, Greece benefited from very low interest rates which fueled capital inflows and fostered the economy. However, less so through investing in productive capacities but rather by increased private and government consumption and thereby building up debt. After a Greek bank bailout in 2009, analysts became aware of spiking government debt levels in the country. Soon, trust quickly evaporated (Nelson, Belkin & Mix, 2011). Austerity measurements taken by the Greek government could not prevent a bailout conducted by the Troika – the name given to the group composed of the EU, the ECB and the IMF. Every bailout package was followed by severe austerity measures. These usually targeted one of three policy areas: Labor market reforms, fiscal austerity or welfare reforms (Matsaganis, 2013). The goal was to restore Greece's government current deficit and debt level to sustainable levels while making the country more competitive and minimizing social collateral damages (Nelson, Belkin & Mix, 2011).

Fiscal austerity demanded more than 250'000 government employees to be fired and large parts of government owned assets be liquidated (Zikakou, 2014). In addition, the tax system was altered by increasing the tax base, hiring tax detectives who should combat tax evasion and general tax increases (Income tax, VAT and wealth tax). Labor market reforms aimed at a more flexible market to enable internal devaluation. Hence, minimum wages were cut by 22%, labor unions rights abolished, working contracts made more flexible and layoff restrictions eased. Finally, welfare reforms led to lower pension benefits, a retirement of 65 and higher contributions to the system (Matsaganis, 2013). In exchange, Greece was granted over 240 bn. Euros by the Troika trying to prevent a default ("Explaining Greece's Debt Crisis," 2016).

Impact generation

Positive impact

Assessing the impact of the implemented reforms yields an ambiguous image. Firstly, it is important to highlight an encouraging rebound of Greek GDP in recent years compared with a free fall in the outset of the crisis. Secondly, Greece's current account started to improve continuously and now hovers around zero (Trading Economics, 2016). This is mainly attributable to declined imports rather than increased exports as available household budgets were squeezed. Thirdly, Greece improved its attractiveness on the international arena. Previously, investor confidence disappeared due to increased risk of government default (which led to the downgrade of credit worthiness) as well as the intervention by Troika. From 2010 to 2012, its attractiveness rank declined from 4.1 (the maximum) to 3.86 (the minimum) (Trading Economics, 2016). However, the improving situation in Greece resulted in decreasing risk-aversion of investors who now rate the country at 4.02 (Trading Economics, 2016). Finally, while still negative, government deficit levels came down and the primary balance is even positive by 0.7% (Bensasson & Chrysoloras, 2016).

Negative impact

Nevertheless, all measures meant to improve the situation in Greece also led to a dramatic deterioration of other social and economic aspects. Before the crisis, unemployment was relatively low at 13%. However, this number spiked to 28% and is especially high for young people with over 60% (Stiglitz, 2015). Moreover, overall life satisfaction among Greek people plummeted to 40% (EU average is at 80%) while being at 70.5% in 2008 (OECD Economic Surveys, 2016). This mirrors the feelings among large parts of Greek society which do not consider their country as a good place for living. Many of these issues are social consequences of a huge recession: GDP plunged and remains around 80% of pre-crisis levels (Matsaganis, 2013). While growth turned positive recently, it is at historically low levels (Trading Economics, 2016). Finally, even though soaring fiscal debt was the main target of the austerity measures, its levels are continuously (too) high as the recession narrowed government tax income flows and interest payments on the debt were enormous.

A vicious circle

Austerity measurements and economic downturn in Europe worked like a "vicious circle" for Greece. Pro-cyclical contractionary fiscal policy interacted with decreased private consumption, thereby reinforcing the economic downturn. Governmental and corporate staff layoffs led to a skyrocketing unemployment rate which diminished household budget available for consumption. Moreover, scrapped social security systems could not dampen the effect. Hence, many families were not able to feed their children (Matsaganis, 2016). Initial projections on the recovery and development used to construct the reforms agenda proofed to be too optimistic. For instance, even though the Euro devalued, Greek exports did not rebound. According to Christine Lagarde, managing director of the IMF, errors and overly optimistic estimations biased the results (Elliott, Inman & Smith, 2013). Hence, she proposes a debt relief for Greece (Smith, 2016). An idea, however, which is heavily opposed by Germany (Carrel & Nar, 2016). Thus, disagreement on the future policy development in Greece stifles much needed decision making. Additionally, social misery led to strong shifts in the political landscape with the rise of right and left wing parties at the cost of the political center. In parallel, large demonstrations and social disobedience took a toll from the Greek society, especially in the larger cities such as Athens (Bilefsky, 2010). Specifically, after the first bailout package in 2010, public unrest escalated, resulting in three deaths (Bilefsky, 2010). Being an early advocate in favor of the PWC, Mr. Stigliz strongly criticizes the implementation in Greece as the troika still pursues a primary budget surplus while having no ear for the gravity of the social misery caused by the austerity measures (Stiglitz, 2015).

Comparison & Conclusion

Although the theory of the PWC includes well-defined policies as outlined in Chapter *Policy Formulation*, similarities but also several differences can be observed in its practical application in the Greek crisis. In the following lines, these are outlined and explained with examples.

Market Liberalizations

In practice, labor market liberalizations belong to the most important field of reforms. In Greece, this was directly addressed in its economic adjustment programs. By introducing more flexible work contracts, the government wanted to incentivize private firms to hire more staff (Matsaganis, 2013, p. 27) as in times of economic downturn these could be laid-off easier and, thus, making Greece more competitive (p. 5). Furthermore, opting-out from union agreements was allowed (p. 30). Thus, the Greek labor market became considerably less secure for workers in the past years (p. 27). Less important were product market liberalizations, as Greece was already part of the European Union and, hence, enjoyed free trade within Europe (Efta, 2016)

Policies addressing the government restructuration

Apart from significantly decreasing the number of public employees by more than 250'00 (Zikakou, 2014) and transferring more to institutions where they could be fired easier (Creutzburg, 2013), public sector reforms included. While targeting revenues of asset sales of 50 billion Euros (European Commission, 2012, p. 31), these are substantially lower than expected in reality as many assets are still unsold or yield lower prices (HRDAF, 2016). Moreover, the welfare state was cut back by increasing the contributions as well as the cutting the benefits (Matsaganis, 2013, p. 34). These actions were combined with the tightened-up eligibility conditions (p. 23, 25).

Other Post-Washington Consensus policies

Reforms aiming at strong legal institutions and improved financial market regulation in Greece are in line with theoretical PWC policy recommendations: The Greek government started to fight corruption and political clientelism as well as to combat poor administration throughout the country. Thus, standards for welfare state benefits were enforced (p. 33) to fight benefit fraud which was estimated to be at over 4 billion Euros (Matsaganis, 2013, p. 20). Moreover, the simplification of the tax system allowed legal institutions to detect tax fraud easier. Regarding financial market reforms, less measures were taken. Most action focused on immediate assistance to save Greek bank from default. Furthermore, temporal restrictions on money withdraws were imposed on the peak of the Greek crisis (McSweeney & Rankin, 2015).

Conclusion

Overall impact of the implemented reforms is controversially discussed among scientists as well as politicians and caused substantial shifts in the political arena. Economic and social key indicators still show a considerable level of stress while its different shades can be observed with almost daily strikes and protest. Austerity measures most likely reinforced the economic downturn and aggravated social misery. Thus, the partially applied PWC did not fulfill the expectations according to the authors.

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7. Post Washington Consensus and the Iranian Justice Share Program

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Introduction

Over the last decades, research brought up many different theories with various underlying core mechanisms that would contribute to the development of the world's poorest countries. After 1990, the Post-Washington Consensus [PWC] theory emerged, which tried to complement the shortcomings of the preceding neo-liberal Washington Consensus [WC]. Countries all over the world have since then implemented PWC-based development programs, hoping for better economic and social growth. Starting over 35 years ago, Iran made an example of those efforts, as it tried to develop its economy with reforms in line with the core principles of PWC.

The next sections focus on how PWC developed and shed light on its core principles. The second part of the paper then introduces the Iranian Privatization Policies, including the Justice Shares Program, and analyzes it from a PWC-perspective. To conclude, the paper evaluates the effectiveness of the program and presents ways to overcome its major shortcomings.

Theoretical Development

Shortcomings of the Washington Consensus

Research concludes that there is no consensus at all to the question of how to develop the world's poorest countries, except that WC cannot be the final solution (Stiglitz, 2015, p.1). The finding of WC having failed in its attempt to develop emerging countries from the 1980s until the early 1990s is significantly supported through the global wealth dynamics over the last decades (see Appendix 1): The increased wealth in East Asian countries suggests countries with a central role of government (e.g. China or Korea) to be more successful than sub-Sahara African and Latin American countries following the WC principles (e.g. Argentina or Bolivia). Furthermore, growth in Latin America during the WC-shaped 1990s was only half of what it was in the 1960s and 1970s (Stiglitz, 2008, p.43). Thus, the core elements of WC failed to accelerate development. Focusing on privatization, liberalization, macroeconomic stability and minimizing the role of the government, WC doesn't consider specific economic structures and related challenges of developing countries (Stiglitz, 2015, p.2). Instead, WC relies on market fundamentalism and its core assumption that markets lead to economic efficiency (Hayami, 2003, p.46). However, Stiglitz states that "there is no theoretical underpinning to believe that in early stages of development, markets by themselves will lead to efficient outcomes" (2008, p.43). Acknowledging this failure, researchers tried to overcome the limitations of the approach.

Shift in the Mindset

As first modifications, the Washington Consensus Plus [WCP] and the Washington Consensus Plus Plus [WCPP] tried to rescue the approach by widening its too narrow set of objectives and extending its too limited set of instruments. While this led to the emergence of additional policies such as competition policies supporting privatization of natural monopolies, female education or improved safety nets, the theories still faced the obstacle of being too narrow, as they did not understand the developing markets. As the modified approaches did not yield the desired results either, the time had come for a more radical remake of the approach: It became clear that the omnipresent assumption of markets being universally efficient mechanisms to allocate scarce resources and drive economic growth was proven wrong by the fast growing, yet strongly centrally-organized East Asian countries. As such, this change in the underlying mindset paved the way for the PWC, which is explained in the following section.

Post Washington Consensus

Core Principles of the Policy

As opposed to WC, PWC addresses the need for different institutions in different economies and recognizes the importance of governments in resource allocation and failure correction in liberalized markets (Hayami, 2003). It furthermore includes non-market factors such as social norms and power balances. In doing so, PWC focuses on poverty reduction and social services, such as education and health care for the poor. Compared to WC, PWC thus shifts its focus from tools and policies used towards the desired outcome, as the formers are means, rather than ends. Summarized, PWC contains the following six core elements (Stiglitz, 2008, p.53 ff):

- A development strategy needs to be developed *with* and not *for* the developing world.
- A one-size-fits-all approach is doomed to fail, as countries have individual circumstances.
- The state needs to obtain a balanced role that is complementary to the markets.
- Development needs a strengthened market *and* strengthened state institutions for success.

- Success can’t be measured only in GDP, but needs a broader set of measures.
- There are areas that lack significant research, where concrete advice is not possible yet.

Principles Implemented in Iran

After the Iranian revolution in 1979, the entire economy was nationalized and the new constitution in Article 44, “explicitly defined the state sector to include ‘all large-scale and mother industries, foreign trade, major minerals, banking, insurance, power generation […] and the like - all these will be publicly owned and administered by the state’” (CRDGC et al, 2012). In the 1990s, Akbar Hashemi Rafsanjani (president until 1997) launched a privatization program, needed after the previous maladministration of the government and the endured war with Iraq (FT, 2012, Bozorgmher). Mohammad Khatami (president until 2005) continued the privatization, which however was proceeding very slowly. In 2005, several Iranian policies were launched to increase the welfare, e.g. the unification of exchange rates, the economic liberalization and a new privatization policy (CRDGC et al, 2012). The main elements of these privatization efforts were efficiency improvements, the reduction of burdens for economic growth and the enlargement of the distribution of ‘shares amongst a wide section of the population’, for which Article 44 had to be newly interpreted (CRDGC et al, 2012).

The Justice Shares Program

The privatization program - which was relaunched in 2005 - was a major part of Iran’s economic development policies. It foresaw that companies from the most important industries (such as one telecommunication company, three banks and 97 companies in the oil, gas and petrochemical sector) were privatized, cumulating in 240 companies worth 122 billion USD (FT, 2012, Bozorgmher; Hadfield 2008). Next to regular privatization, the program also included the ‘Justice Shares Program’, which will be further analyzed and compared to the Post Washington Consensus in the following section (see Appendix 2 for an illustration of the program’s comparability with PWC).

Iran itself launched the privatization program after realizing that state-owned companies were largely unprofitable, e.g. because of an inflated number of employees, and thus in need of a restructuring (Financial Tribune, 2015). Due to its nuclear program, Iran was being politically and economically isolated during this period, wherefore it inherently developed the program for itself, rather than developing it *with* the developed world.

Although some elements resemble the ‘coupon privatization’ in Russia and Czechoslovakia in the 1990s, the design of the Justice Shares Program does not follow any existing development programs (IBP, 2016, p.146). Given this idiosyncrasy, the initiative doesn’t follow the imperative of PWC, encouraging a cooperative development, but is on the other hand specifically tailor-made to the Iranian situation.

In 2006, Ayatollah Khamenei, the supreme leader of Iran, enforced privatization with an amendment to Article 44, allowing to privatize 80% of governmental assets, while the remaining 20% stayed with the government (IBP, 2016, p.145). The article furthermore prohibited monopolies in the governmental as well as in the private sector (*Iran Daily Newspaper, 2006).* These measures aimed at a balanced relationship between the market and the Iranian government, as is implied by PWC. The shares not distributed via the Justice Shares Program were privatized via the Teheran Stock exchange (Financial Tribune 2015): “The privatization effort calls for an initial public offering of 5% of the firms being privatized. Once the 5% are public, they will establish a market price which further offerings can be based on” (IBP, 2016, p.144). To support the privatization with knowledge and capacity, institutions like the Iranian Privatization Organization [IPO] were put in place, which is in line with PWC principles (Rezaee, 2016). In the same vein, the supreme leader of Iran stated that the program is only considered a success if it produces development, social justice and reduces poverty rates (IBP,2016, p.145). To do so, it planed “to offer shares to low-income families, starting with the poorest”, while the government took a share of the dividends for 20 years to finance the program (IBP,2016, p.145; Hadfield, 2008). By June 2009, a reported 40 million people received shares through the program (IBP, 2016, p.144). This attempt to reduce poverty was one of the program’s major premises with respect to PWC.

Impact Evaluation

Iranian Privatization

To some extent, Iran has profited from its privatization policies. Thanks to an increased political openness, new market policies, regulations, and supervising institutions [i.e. IPO], Iran’s economy has witnessed a strengthened private sector, increased competition in formerly government-run industries, and better access to international markets (Financial Tribune, 2015). Nonetheless, privatization fell short of the Iranian government’s expectations, due to unfulfilled prerequisites and a flawed procedure. Politically, many

Iranians mistrusted privatization and 'the start of capitalism' for historical reasons. Moreover, most management positions in semi-governmental companies were occupied by government representatives. Therefore, the private sector continued to have little decision-making authority and interactions with the private sector on legislative matters remained limited (Hadizadeh, 2013; Atashbar, 2011). This resulted in sub-optimal legislation and market-development policies, as well as corruption in semi-governmental companies. Additionally, inadequate restructuring of state-owned companies, e.g. the unwillingness to lay off unrequired workers, had left those firms inefficient and unprepared for the (semi)-private sector (Hadizadeh, 2013; Atashbar, 2011; Financial Tribune, 2015). Despite these challenges, Iran wants to continue its privatization (Hadizadeh, 2013). By separating state-owned, semi-private, and private sectors more clearly, while fostering more fruitful interaction between them, the Iranian government hopes to find the success it was hoping for.

Justice Shares Program

As outlined above, the government had good intentions when implementing the Justice Shares Program and shares worth nearly 15 billion USD were reported to be distributed to the public in its first year (Rezaee, 2016). Furthermore, the program was designed to accelerate the slow pace of privatization of the Iranian economy and carried important symbolic value: It expressed the nation's will to support the poor and wanted to ignite a tradition of private investment and shareholding (Harris, 2016; Financial Tribune, 2016).

However, the conceptualization and implementation of the program were seriously flawed. Firstly, instead of the poor, most shares were documented to end up with (sometimes newly founded) para-governmental organizations, such as the 'Social Security Organization'. They fulfilled the legal requirement of being non-governmental, but were known to have close relations to the government. The state-held companies were thus pseudo-privatized, as the money was transferred from state owned enterprises to state organizations (CGRDC, 2012). At the origin of these emerging monopolies lied huge governmental debts towards these organizations, wherefore they were given shares instead of a debt repayment (CGRDC, 2012). Besides the downside of monopolization, these para-governmental funds also lacked the expertise on how to manage such large enterprises (Khajehpour, 2016). Another fundamental problem of the program was the unprofitability of privatized companies, due to their long history of being protected from free competition. To compensate shareholders, the government found itself constraint to replace dividends with governmental funds. Furthermore, the implementation of the project was also heavily flawed. On the one side, corruption impeded a clear project evaluation and communication, while a lack of objectivity in transaction characteristics made a free trade in the stock exchange impossible. Lastly, institutions set up to facilitate privatization were still too bureaucratic and inexperienced to efficiently deal with the challenges of privatization.

It must thus be concluded that the Justice Shares Program failed, as privatization and social advancement were incompatible goals, while the state-market imbalance hindered a successful implementation. One way to increase the strength of the private sector is a - partial - regular privatization of state-owned companies that would increase the companies' competitiveness while offering financial incentives to the government. Another lever are rules and regulations, e.g. in avoiding the creation of monopoly structures in shareholdings. However, these measures would restrict the project's scope and speed of implementation, which is however in line with the newest announcement of the project's new management (Khajehpour, 2016).

Post Washington Consensus

Out of a methodological perspective, it has to be attested that PWC did not succeed in developing Iran through the Justice Shares Program. While the Iranian GDP however increased since 2006 when the project was launched, there was no significant increase in the level of social development in Iran (statista, 2016; Social Progress Imperative, 2016). This was mainly due to the prevalent imbalance between state and market. It was thus made clear that a balanced state-market-relation is a crucial prerequisite of PWC's effectivity, rather than a result of it – although PWC might admittedly lead to its further promotion. This limitation is then also a major disadvantage of PWC as a development approach, as most countries in need of development aid have an imbalanced relation between state and market (Transparency International, 2015). Thus, it has to be stated that PWC – although promising in theory – turned out to be hardly applicable in praxis. This limitation is especially severe, as applications of PWC can even leave a country's social development worse off, as was the case with Iran.

Conclusion

This paper has introduced the Post Washington Consensus theory, the rationales behind its development and the core principles that it is based on. Taking this theoretical framework, the paper presented the Justice Shares Program as part of the Iranian privatization policies as an example of a PWC-based development program and evaluated its effectiveness in developing the Iranian economy and social system.

It was concluded that while the Iranian privatization efforts were a necessary means to develop Iran's economy, the Justice Shares Program stretched the limits of the program too far when it tried to combine the rationales of privatization with a development aid program. Combined with the imbalanced relationship between state and market, the unprepared financial markets and the impetuosity of the program's implementation, the Justice Shares Program failed its goal of accelerating social justice. Furthermore, it was concluded that PWC struggles to overcome state-market-imbalances, which seriously hampers its effectivity in practice.

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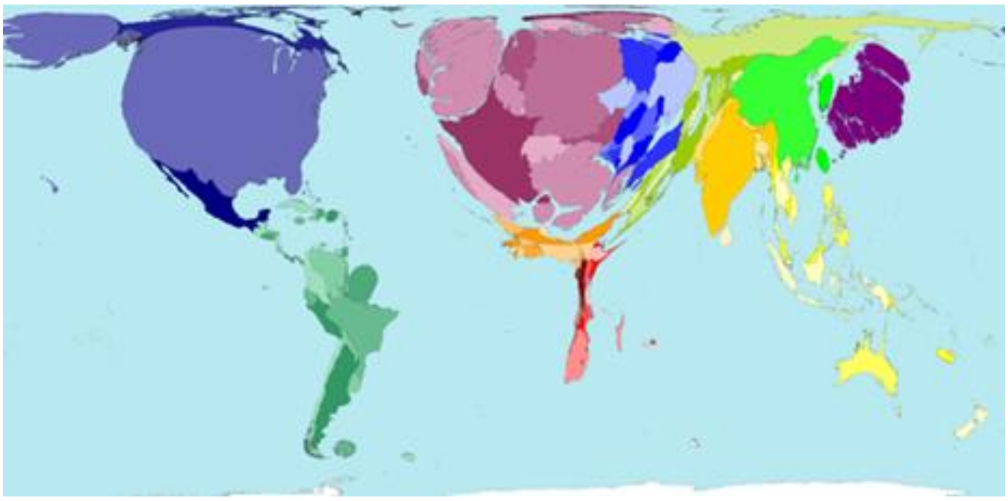
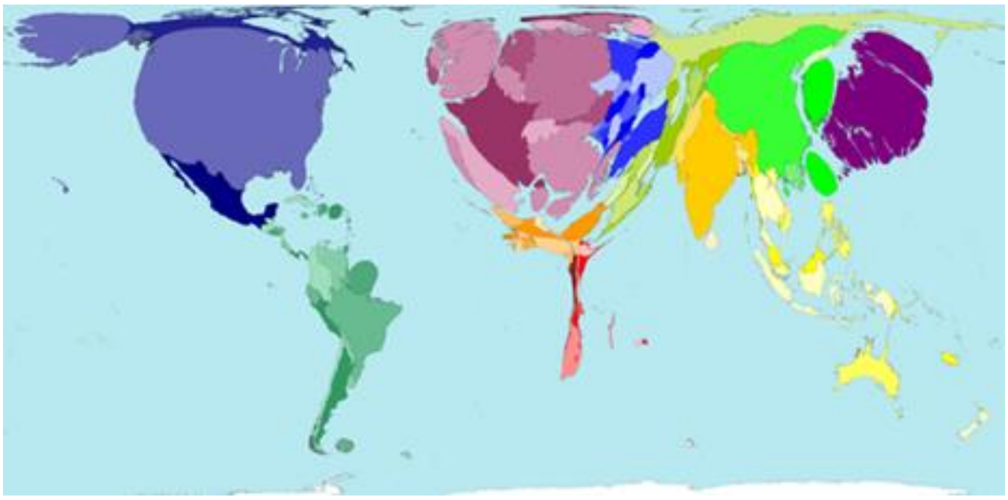
Appendix

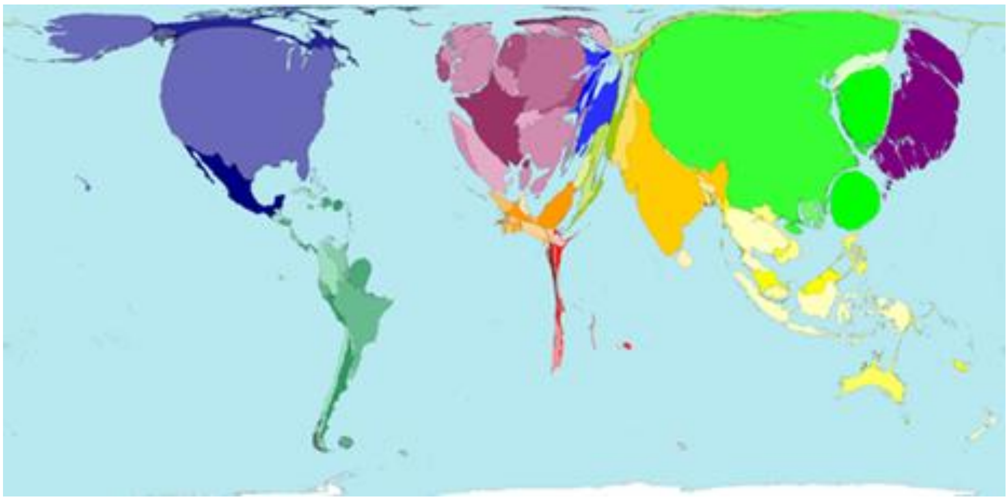
1. Global Wealth Dynamics: Global Wealth Maps show the dynamics in wealth or gross domestic product (GDP) over time, as the GDP is reflected in the size of the respective country:



1960



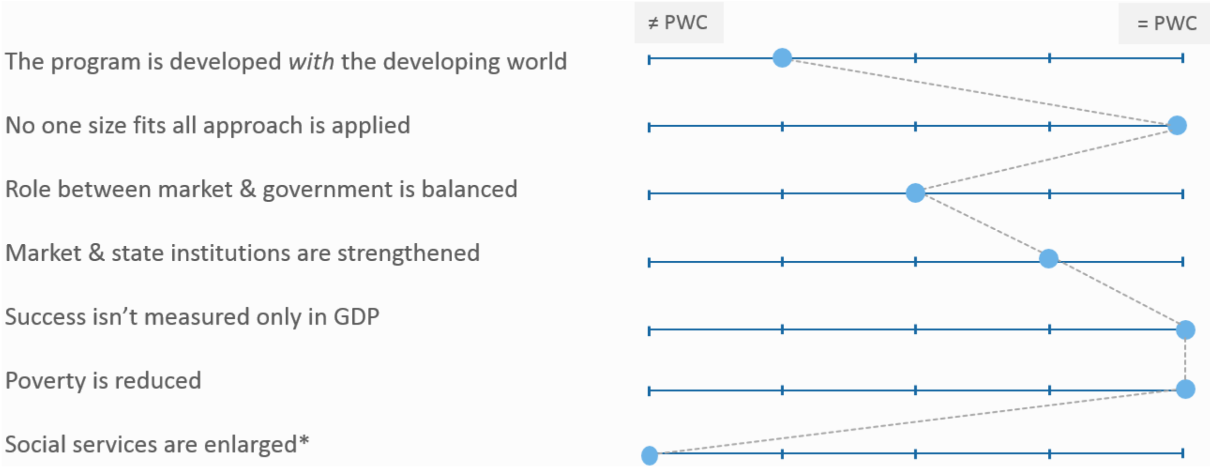
1990



2015

Source: Worldmapper, 2016

2. Evaluation of Post Washington Consensus-Criteria of the Justice Shares Program



The analysis of the program's impact on public services would go beyond the scope of this paper, wherefore it is excluded from the PWC-compatibility analysis.

Source: Own Illustration

8. The Capability Approach: Sustainable development and the case of United World School

Ricardo Garcia, Lukas Freiburghaus, Linda Schächtele, Martin Frei

Introduction

The capabilities approach was first formulated by Amartya Sen in 1980 and depicts a much broader picture of development as compared to other theories of economic development. Until the 1980s, all development theories were utilitarian at their core and could be characterized by a very strong focus on the achievement of income growth. Amartya Sen criticized this narrowness and developed an approach that is much more focused on the individual and the constitution as well as realization of its freedom. After explaining the approach and its political implications, this paper will outline why education is of particular importance within the capability framework and will then introduce the case of United World Schools (UWS) as a concrete example of a project related to the capability approach and conclude with a critical evaluation of this project as well as the capability approach as a whole.

Theoretical Foundation

For Sen, economic growth is only one part of the answer. Growth may be a necessary, but not a sufficient condition for development. Without addressing income distribution and other concerns such as rights and freedoms, growth is meaningless. Therefore, development efforts should not only provide better economic conditions, but also enable people to live a life they value. This chapter introduces the theoretical foundations of the capability approach.

Redefining development: functionings, capabilities and agency

Sen's theory is built on three key concepts: functionings, capabilities and agency. *Func-tionings* consist of a set of 'beings and doings' responsible for an individual's wellbeing (Sen, 1992, p. 39). This set offers a better evaluation of social welfare than traditional utilitarian app-roaches, but makes it also very hard to assess the well-being of a person as it involves complex functionings, like being joyful or engaging in certain activities in one's neighborhood. As a re-sult, functionings are outcome rather than input oriented (von Kimakowitz, 2012, p. 18). *Capa-bilities* represent the various combinations of functionings that are feasible for a person to achieve. In this context, capability has to be understood as "reflection of the freedom to achieve valuable functionings" (Sen, 1992, p. 49). Not all functionings an individual can achieve are valuable to it. Capabilities therefore need to consist of valued functionings rather than any achievable functionings (Robeyns, 2005, p. 95). Shortly, capability means an individual’s free-dom to promote or achieve valued functionings (von Kimakowitz, 2012, p. 18). Development is the expansion of capabilities that people have acquired in order to achieve their valued func-tionings. *Agency,* in turn, refers to a person who has the ability to pursue or realize goals that he or she has reason to value, and an agent is someone who makes use of this ability (von Kima-kowitz, 2012, p. 19). Agency is not the same as well-being. If an action is not beneficial to the agent itself, then we are focusing on agency instead of well-being (Robeyns, 2003, p. 15).

Policy Formulation

Despite the capability approach being very abstract and complex, it has triggered a large amount of revised national and international policies that focus on sustainable development as a result. This chapter first introduces exemplary policy implications on an international level. Then it proceeds by illustrating, why policies focusing on education are particularly important in the context of the capability approach. The chapter concludes with an example of a country-specific national policy implication in the area of education using the example of Cambodia, since this is the focus country of this paper’s case study United World Schools.

Policy implications on an international level: HDI, MDGs, SDGs

The first policy implication of the capability approach was the introduction of the Human Development Report (HDR) and the Human Development Index (HDI). The HDR was first published by the HDR Office of the United Nations Development Programme (UNDP) in 1990. The purpose of this annual report is "to shift the focus of development economics from national income accounting to people-centered policies” (Haq, 1995, p. 9). The report tracks progress in human development across the world. Sen was involved in the design of an indicator that measures improvements in well-being in addition to growth. Despite initial doubts about whether an index can fully capture the complexity of development, Sen ultimately was convinced by the argument that only a single number would shift the attention of politicians from economic growth to human well-being (Stanton, 2007, p. 14). Therefore he contributed to the development of the HDI, an indicator that measures the degree of human development across countries, e.g. by measuring the level of education and other indicators. Another crucial contribution of the capability approach was the provision of the theoretical framework for the design of the Millennium Development Goals (MDGs), adopted by the UN in 2000 and the succeeding Sustainable Development Goals (SDGs), which lay out the international development agenda until 2030. The goal of the MDGs was mainly poverty reduction, while the SDGs go beyond that and contain 17 goals for sustainable development, including quality education, gender equality and well-being.[10]

Crucial general policy implication: focus on education

Both, the HDI as well as the SDGs strongly emphasize the importance of education for sustainable development. A stronger focus on education is thus an important implication of the capability approach. This paper will focus on this specific policy implication in more detail. Education is crucial for sustainable development for multiple reasons: First, education lays the basis for the development of capabilities of any individual. Second, it not only helps to develop an individual's capabilities, but also to broaden its horizon to make more informed choices. E.g. a pupil is enabled to start dreaming about possible future plans, which were unthinkable before. Third, education has strong spillover effects – educated individuals support development on multiple dimensions. It touches every sphere in society, because educated students are able to exercise professions such as doctors or entrepreneurs who have a great impact on society. To sum up, fostering a good level of education is an effective way to improve the freedom of an individual to live a life it has reason to value, which links education to the capability approach.

Policy implications on a national level: education in Cambodia

Having seen the policy implications on an international level (SDGs etc.) and the importance of education, the objective is now to illustrate an example of country-specific education policies of Cambodia, where this paper's case study project (UWS) is mainly active. The national goals of education are anchored in the constitution of Cambodia: *«The State shall establish a comprehensive and standardized education system throughout*

[10] Exact composition of the HDI as well as an overview on the MDGs and SDGs can be found in the appendix.

the country that shall guarantee the principles of educational freedom and equality to ensure that all citizens have equal opportunity to earn a living.»[11]

It becomes clear that the ultimate means to “ensure the opportunity to earn a living” is not solely growth, but also education. The annual report of 2014 on Cambodian education states that improved schooling would eventually lead to higher development. The envisaged goal is to be among the lower–middle income countries by 2030 through investing in education: *« The development of skilled human resources with quality, ability and virtue is a key priority for Cambodia. The Royal Government envisages that Cambodia will step into lower–middle income country status by 2030 and attain developed country status by 2050.»*[12]

Having a government in place that encourages education, a project such as the United World Schools (UWS) finds perfect conditions for exercising its mission.

Project Implementation: Case Study United World Schools

As outlined in the previous chapter, the capability approach implies strong focus on education. Despite that high importance of education, globally 59 million children still have no access to education, one of the crucial factors for development. One project that tries to tackle that challenge is United World Schools (UWS). The objective of this chapter is to introduce UWS, its vision, key principles, funding and financials and to link it to the capability approach.

Project overview: United World Schools – teach the unreached

United World Schools is an NGO that builds and operates primary schools in remote villages in Cambodia, Myanmar and Nepal that would otherwise have no access to education. It was founded in 2008 by Chris Howarth and has so far built 70 schools in total (UWS, 2016). Their vision is to “*teach the unreached: where children in remote and post-conflict areas have access to basic education and improved life chances”* (UWS, 2016a). For 2018, they aim at having built 190 schools and being able to provide education to at least 50,000 children.

[11] Constitution of Cambodia. Phnom Penh, 21 September 1993. Constitution.org, retrieved on 20.10.2016

[12] Cambodia: *Education for All*, 2015 National Review (2014)

UWS' approach and key principles: act locally

UWS' approach is centered around 4 key principles (UWS, 2016b, p. 7): First, UWS strongly focuses on regions, where governmental education does not have any reach and children usually have never had access to schooling. Second, UWS cooperates closely with local authorities, e.g. the local government and the local education department. Their goal is to ensure that local buy-in is guaranteed and they only build schools where they are welcome. Third, UWS tries to involve as many local people as possible during the construction process as well as when running the school. Schools are usually built with a major contribution coming from local workers. Furthermore, UWS provides training for local people to become teachers in the primary school to ensure that the school is ultimately run by local people. And finally, UWS tries to match every school they build with a school in a more affluent country (e.g. UK) to benefit from each other through know-how exchanges, volunteering etc. UWS maintains a network of 59 partner schools in total that vitally contribute to the success of their model.

UWS' funding and financials

As a typical NGO, UWS' main source of funding are donations. In 2015, UWS received a total amount of donations of 937,252 GBP, 80% more than in 2014 (UWS, 2016b, p. 20f). Out of that, 666,128 GBP were used to build new schools, operate existing schools and cover other expenses, e.g. costs for fundraising. The remaining 271,124 GBP are moved forward to ensure enough liquidity for future school construction projects. The main sources of donations are partner schools, individual supporters, corporate partners, trusts & foundations and events organized by UWS (e.g. gala dinner). UWS operates very efficiently. Costs to build a school amount to 30,000 GBP and costs to run a school for one year to 10,000 GBP. This means that UWS provides education for less than 1 dollar per week per child. (UWS, 2016b, p. 4)

UWS' link to the capability approach

The aim of the capability approach is that every individual should be able to freely choose the life it wants to lead. By building schools in remote areas, UWS helps children to unlock new opportunities that would not have been reachable. By providing children with basic abilities like reading, writing, counting and speaking their national language (in many remote areas in Cambodia only local dialects are spoken), UWS provides them with the skill set to further develop, moving them one step forward towards living a valuable life. Additionally, UWS makes its contribution towards reaching one of the sustainable development goals namely to ensure inclusive and equitable quality education for all.

Impact Generation of UWS

After having introduced UWS as an organization, this chapter illustrates the general impact of UWS and the specific impact on individuals.

General impact of UWS

Not only education per se but empowering communities and driving social change is the aim of UWS (UWS, 2016b, p.4). By teaching children who have previously been denied access to schools, UWS provides more than just basic education[13]; UWS equips children with essential life skills and offers a way out of poverty into a self-determined, freely chosen future (UWS, 2016e). UWS especially puts emphasis on the education of girls in order to close the gender gap in education between boys and girls. Evidence shows that educated girls are less jeopardized to experience exploitation, have smaller families, are healthier and earn higher wages. UWS helps girls to become active citizens in their communities with better opportunities for their families and their own future due to their capabilities. (UWS, 2016f) To ensure its sustainability, UWS tries to fully integrate its schools into the countries' education systems. To facilitate this integration, UWS fosters close relationships to the education ministries of the respective countries and aligns its lessons with the national curriculum (UWS, 2016e). In comparison to for-profit education models, UWS has the big advantage that it can focus on poor rural areas that would be very hard to reach with for-profit business models. It really provides education in areas, where otherwise education would probably never be offered.

[13] Abilities children will learn at UWS include: reading, counting, writing, talking, thinking, comparing, making and, crucially, achieving success in these areas.

The impact of UWS on individuals

UWS' education reaches more than 7,000 children and sometimes even adults attend classes with older children as many adults are not literate and wish to learn reading and writing (Gulfweekly, 2015). UWS is able to change lives. Two examples are mentioned in the following. Firstly, UWS recognized the exceptional ability of Manin, an orphan who lived on the Phnom Penh rubbish dump, selling cans for recycling. Manin was able to join a partner school of UWS and received a scholarship to continue her education. She competed college in the UK and is currently studying in the US to become a doctor. When finished with her studies, she would like to return to Cambodia (UWS, 2016c). Secondly, Vy Jon, a 13-year-old boy who lives in Cambodia with his parents and 8 siblings is eager to go to school to be able to support his parents. They cannot read, write or speak Khmer. The children help the parents working in the rice field. Nevertheless, they sometimes do not have enough food. Vy's education broadens his opportunities and helps him to help develop his family's business (UWS, 2016d). To sum up, UWS seeks to break the cycles of poverty through the education it provides and broadens the horizons of numerous people and enables people value the lives they live (UWS, 2016d). However, there is one crucial point which UWS should improve. UWS only provides education on a primary school level and not all the children are as fortunate as Manin and get the chance to study abroad after completing primary school. Therefore, UWS should integrate their schools as fast as possible into the national education system or provide education on a secondary school level.

Critical Review of the Capability Approach

After the policy implications of the capability approach and a concrete practical project as an example, this chapter concludes with a general critical review on the capability approach. The capability approach has many advantages, but also disadvantages. Is has provoked an important debate on the determinants of development, and emphasized that growth targets alone are not sufficient for development. Additionally, it provides a broad but not conclusive normative framework, which is widely accepted, however it remains controversial. The operationalization is still a disadvantage. It remains challenging and makes it very hard to compare development in different countries (von Kimakowitz, 2012, p. 23ff). Examining the approach more on a meta-level, it is furthermore questionable whether criteria for good development fit in every cultural setting. There is the danger that the predominant western perceptions of a "good life" are imposed on other (undeveloped) people groups that, potentially, value tradition and structure higher than living a life full of options, and critical reflection. Finally, economic growth is still at the core of this theory: While having a growing population, growth in GNP – and hence more available resources – are needed in order to guarantee a decent level of education. Nevertheless, it has indisputably had an impact on focusing more on sustainable development and freedom for individuals to lead a live they have a reason to value.

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Appendix

Human Development Index (HDI) composition:

1. Life Expectancy Index (LEI) $= \dfrac{\text{LE} - 20}{83.2 - 20}$

2. Education Index (EI) $= \dfrac{\sqrt{\text{MYSI} \cdot \text{EYSI}} - 0}{0.951 - 0}$

2.1 Mean Years of Schooling Index (MYSI) $= \dfrac{\text{MYS} - 0}{13.2 - 0}$

2.2 Expected Years of Schooling Index (EYSI) $= \dfrac{\text{EYS} - 0}{20.6 - 0}$

3. Income Index (II) $= \dfrac{\ln(\text{GNIpc}) - \ln(163)}{\ln(108,211) - \ln(163)}$

Source: http://www.discoveringsaopaulo.com/2011/06/human-development-index-of-sao-paulos.html

Sustainable Development Goals:

Source: http://www.un.org/sustainabledevelopment/news/communications-material/

Millenium Development Goals:

Source: http://www.erewise.com/current-affairs/new-millennium-development-goals-mdg_art524d3ebd0b92b.html

9. The Capability Approach: Case Study of Tajikistan Water Supply and Sanitation (TajWSS) Project

Nicole Moret, Carolina de Azevedo, Christopher O'Connell, Taniya Channa

Theoretical Foundation

The Capability Approach (CA) has been founded by the 1998 Nobel laureate in Economics Amartya Sen, beginning with the Tanner Lecture "Equality of What?" delivered at Stanford University in 1979. Sen continued to develop the approach through several books and publications during the 80's and 90's, when the CA found its way to practice within the United Nations (UN) development frameworks.

The CA goes beyond a strictly utilitarian view of the development process in which development is measured through income, industrialization or technological process. Sen argues that economic growth is indeed an important means to well-being, but it cannot be treated as an end in itself. In his view, development should be more concerned with enhancing people's lives and expanding their substantive freedoms (Sen, 1999).

In "Development as Freedom" Sen identifies five equally important and interconnected freedoms as the building blocks of a democratic society: political freedoms, economic facilities, social opportunities, transparency guarantees and protective security. He views freedoms not only as the primary ends of development, but also among its principal means (Sen, 1999).

In the CA, certain concepts are viewed as essential to enable one to have the freedom to lead a life one has reason to value. A simplified schematization of the CA with the concepts described below can be found in **Fig.1 in Annex**.

Capabilities are the central factor in the CA chain and represent the real opportunities to do and be what one has reason to value. However, to achieve a certain capability, one must first have access to the required resources and infrastructure. There is no automatic process that converts these resources or goods into capabilities. Conversion factors can allow this transition, as explained below.

Once a set of capabilities has been achieved, these can then be turned into functionings. **Functionings** are the "beings and doings" responsible for an individual's well-being. For example, "being healthy" (Robeyns, 2011). In relation to the case study at hand, once clean drinking water and safe sanitation are provided, "being healthy" is a possible functioning. On the other hand, water from unclean sources heightens the risk of disease.

Conversion factors, agency and individual choice act as catalyzers in the transition process from resources to capabilities and from capabilities to functionings:

Conversion factors (Morris, 2010) can be (i) personal conversion factors (e.g. gender, physical condition), (ii) social conversion factors (society, public policies, traditions etc.) and (iii) environmental conversion factors (e.g. physical environment such as infrastructure). Without laws, effective governance, public policies and infrastructure, access to clean water and sanitation would be limited or inexistent, constituting a major obstacle to being healthy as an achievable functioning, and consequently impeding other related capabilities such as being able to study or to work.

Agency is the ability to act and bring about change, according to one's own values and objectives (Sen, 1999). Someone who is forced or oppressed does not have agency. On the other hand, someone may potentially have agency and choose to be passive and not to use this ability (von Kimakowitz, 2010). This is when **individual choice** comes into the picture, as one must choose to act once all the other enablers for one to achieve the valued functionings are in place.

As shall be seen in the case study below, the TajWSS Project itself directly addresses social and environmental conversion factors which enable an individual the pursuit of good health, thereby also his or her access to a greater set of capabilities.

Policy Formulation

Sen's CA has since its publication inspired many development scholars and practitioners around the world. A first attempt to operationalize the CA can be found in the Human Development Index (HDI), which was originally developed in 1990 by the Pakistani Nahbub ul Haq. Although the HDI is not a development policy *per se*, it can be seen as the starting point of a new era of development from which many organizations in the sector have established broader and more integrated programs. Thereafter, the Millennium Development Goals (MDGs) from 2000 to 2015 have for the first time unified development efforts and policy formulation. The wide range of issues addressed under the eight MDGs indicate that a focus on economic development is no longer viewed by the international development community as sufficient for improving the lives of the poor, but rather that different types of freedom are interconnected.

The MDGs have since their publication led to a cascade effect and thereby found their way down to specific projects: UN organizations and programs, national cooperation agencies, donors, NGOs as well as developing countries aligned their development policies accordingly (see **Fig. 2 in Annex**). To continue the efforts of the MDGs, 189 countries have agreed on a set of 17 Sustainable Development Goals (SDGs), which cover many more topics while recognizing *"the need to balance economic growth, social growth and* *environment protection in promoting sustainable development"* (UNDP, 2016) for 2015 until 2030.[14]

The case study at hand presents an example of one of the many projects designed based on the MDGs. Different development policies in Tajikistan have led to a proliferation of programs in the water sector aiming at improved water governance and access to clean drinking water in rural areas. The most important policies for the discussed water project have been the *"National Development Strategy for Tajikistan 2007-2015 to reach the MDGs"* and the *"Program on the Improvement of Safe Drinking Water Supply to the Population of the Republic of Tajikistan for 2008-2020"*.

Project Implementation

Tajikistan was selected as a pilot country for the implementation of MDG 7 (Target 10), which is to *"…halve by 2015 the proportion of people without access to clean water and sanitation"*. The reason for this can be found in the State Unity Enterprise's study conducted in 2010, where it was discovered that although Tajikistan ranks 4th in the world in terms of water reserves, only 3.7 million people, i.e. 48% of Tajikistan's population have access to drinking water supply systems. Nearly 4 million people, predominantly in rural areas, are without sustainable access to drinking water - the lowest level of access to drinking water in the region (SDC, 2012).

Below are the key facts and figures of the TajWSS Project:

- **Duration:** long-term project initiated and implemented by Oxfam GB (phase I: July 2009 – August 2013, focus of this paper; phase II: November 2013 – end 2017).
- **Partners:** Oxfam GB and United Nations Development Program (UNDP) on implementation; funded by the Swiss Agency for Development Cooperation (SDC).
- **Beneficiaries:** 2 pilot districts (Muminabad and Rudakai), 38'000 people living in 11 villages; scalable model.

[14] The new SDGs are well in line with the Capability Approach and recognize, even more than the MDGs did, that there are many more aspects besides economic development which influence the well-being of the people. It also shows that any topic valued by a specific country is important, no "function" can be excluded or ranked more important than another one. The fact that the SDGs do not only apply to developing, but also to developed countries and the emphasis on the interconnectedness of the issues (e.g. climate change can affect food security) illustrates that "good development" as well as the well-being and social welfare of the people is clearly not uniquely contingent upon advanced economic development, but rather a highly complex issue. Therefore, a systemic approach as reflected in the SDGs is needed to address development.

The lack of access to safe drinking water is considered the biggest health hazard in Tajikistan. In rural areas, water is typically collected from canals, rivers and other unsafe sources, predominantly by women and children, who could clearly use the time spent more efficiently or for other activities they value, such as in household decision-making, part- or full-time work, education and community life. (SDC, 2013)

The main goal of the TajWSS Project is to contribute to the creation of an enabling environment for the sustainable provision of safe drinking water and sanitation in rural Tajikistan via a highly systemic, broad and inclusive approach. (Swiss Cooperation Office, 2012). In doing so, the TajWSS Project also contributes to the achievement of other MDGs such as:

- MDG 3: to promote gender equality and empower women.
- MDG 4, Target 5: to reduce by two-thirds the under-five mortality rate.
- MDG 5, Target 6: to reduce by three-quarters the maternal mortality rate.
- MDG 6, Target 8: to have halted by 2015 and begun to reverse the incidence of malaria and other major diseases. (United Nations, 2015)

The project encompasses four main intervention areas (see **Fig.3 in Annex**) with the so-called "institutional principle" as its underlying axiom. This basic rationale supports the transfer of responsibility to the lowest appropriate level of government and facilitates greater involvement of the civil society, private sector and other stakeholders to bring about change in both the policy and practice of water management and governance in Tajikistan (Agua Consult, 2014):

1. **Water Trust Funds (WTFs):** WTFs are decision-making bodies for capital investment in new water systems and the rehabilitation of old systems. The WTF instrument being applied in the TajWSS is unique to the sector globally as it is formed as a community-based decision-making body, which not only promotes increased investment and financial sustainability, but also water-use efficiency, conservation and protection in Tajikistan. By doing so, issues of fair distribution and allocation of water to all users, regardless of their gender or ethnicity, can effectively be addressed, thereby guaranteeing equality of access.
2. **Policy Development:** This intervention area not only aims to improve the legal framework across the country, but also builds on the capacities of local policy and decision-makers. Its main aim is to create an enabling legislative framework and policy environment at both the central and local levels for enhanced WS&S in Tajikistan.

3. **Capacity Building of Regulators and Operators:** The intervention area on capacity building aims to enhance the capacities of institutions and practitioners in districts. Via trainings and workshops, stakeholder involvement in the monitoring process and awareness-raising campaigns, local people are trained in acquiring the necessary skills such as accounting, operation and maintenance of water systems as well as in water chlorination and effective sanitation. Locals are thus endorsed with the capabilities to operate, maintain and sustain the WS&S services supplied.
4. **The Tajik Water Network on Sustainable WS&S:** This activity area is also the "heart of the TajWSS project" as it intends to establish a well-functioning collaboration network to unify stakeholders and increase awareness and actions on rural WS&S across Tajikistan. By providing a forum in which best practices and experiences can be shared and discussed, an effective, transparent and streamlined process for the investment, operation and regulation of WS&S is created at both the local and central levels of Tajikistan.

Impact Generation

As observed above, the TajWSS Project builds on an intervention logic of improving the capacities of both local communities and central authorities for the policy and practice of water governance in rural Tajikistan via a collaborative bottom-up approach with top-level authorities. It thereby addresses a wide range of issues such as sustainability, accountability, inclusive participation, equality of access, decentralization and local ownership of rural water supply (an overview of the TajWSS intervention logic can be seen in **Fig. 4 in Annex**). A few examples of the first main outcomes achieved from the interventions so far implemented within the 2 pilot districts of Tajikistan are listed below (data of Koenig, 2012):

- **Improved practices that lead to sustainable governance of WS&S:** While 7 newly built water supply systems provide drinking water to 11 villages wherein 23.000 people are given access to drinking water, the establishment of 6 water users' associations assures that women and men in rural areas have both the knowledge and capacity to operate and maintain the water systems. The inclusion of women into the stakeholder monitoring process promotes gender equality (MDG 3). 3.000 people have been reached via awareness raising campaigns.

- **Improvements in the policy environment at both central and local levels:** A new law on "Drinking Water and Water Supply" adopted on 29 December 2010 emphasizes the right to WS&S for all across Tajikistan. Furthermore, policy dialogue and information within the Tajik Water Network allow both local as well as central authorities to come together and collaborate on improving WS&S services in rural Tajikistan. An IMCC (Inter-Ministerial Coordination Council) was established on 13 September 2011 to improve the network's coordination.

On a micro level, first impact studies within the 2 pilot districts have found that about 15.000 women, men and children improved their health due to a reduction of water-borne diseases. On top of this, rural communities now save approximately 4 to 5 hours to fetch drinking water, which clearly improves their overall well-being as more time becomes allocated for other activities.

Since the project is still on-going, it is not yet possible to measure the project's long-term impact. What can, however, be stated, is that as the TajWSS Project aims at enhancing the capability set of beneficiaries by addressing a systemic level. The overall impact will therefore be of a much more indirect, long-lasting and sizeable nature compared to other development efforts.

Conclusion on Impact Generation & Capability Approach

It could be observed that policies and projects implemented based on the CA tend to be of a much more holistic and enabling nature as they address a large variety of issues focused on well-being and no longer focus solely on economic aspects. However, resources, goods and services still constitute the first factor in the chain leading to capabilities, functionings and well-being. Therefore, the economic aspects of development remain of extreme importance. Further, impact measurement presents an important challenge, as the approach of development projects has become much more broad, pluralistic, systemic and complex. In conclusion, the CA has served as a useful normative framework and has led for the first time to a non-utilitarian view of development.

As the era of the MDGs ended in 2015, MDG 7, Target 10 on water supply and sanitation was met well before its deadline, with approximately 1.9 billion people gaining access to safe drinking water between 1990 and 2015 – a success to which the TajWSS Project most surely has contributed to. However, worldwide about 663 million people still lack access to clean water and the most underprivileged people are still not reached. In this regard, continued efforts to improve access to safe water and sanitation from many sides are still required. (UNICEF and World Health Organization, 2015)

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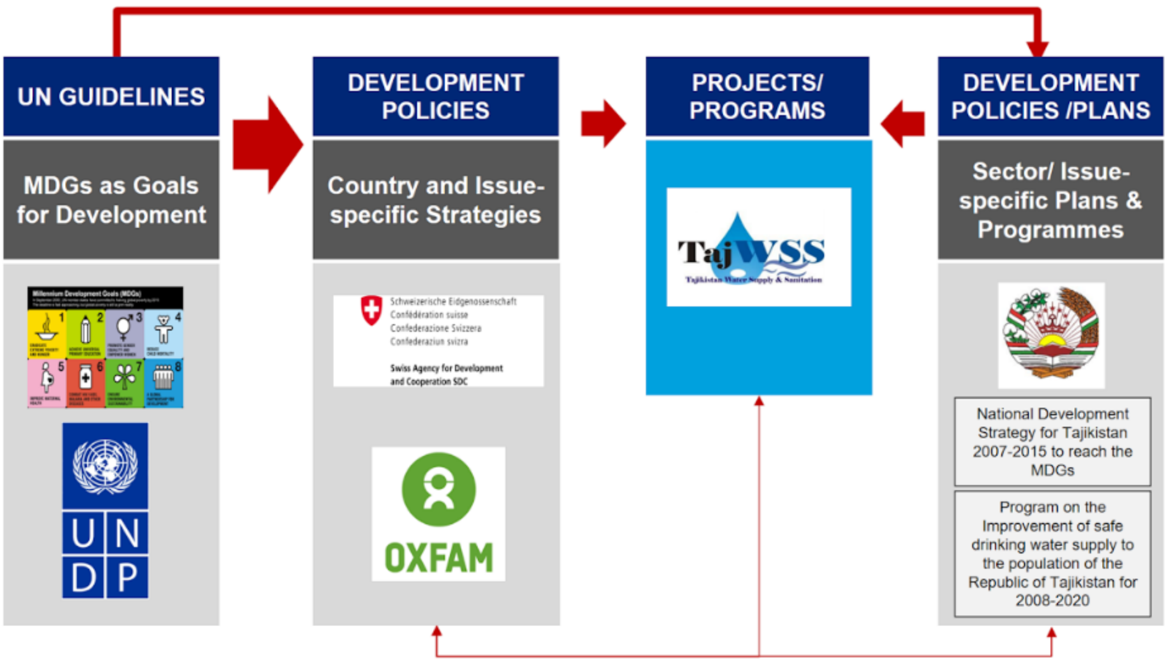
Annex

Fig.1: Schematization of the Capability Approach

Source: Own interpretation based on Robeyns, I. (2005).

Fig.2: Cascade Effect from the MDGs to Policies and specific Projects in the Field

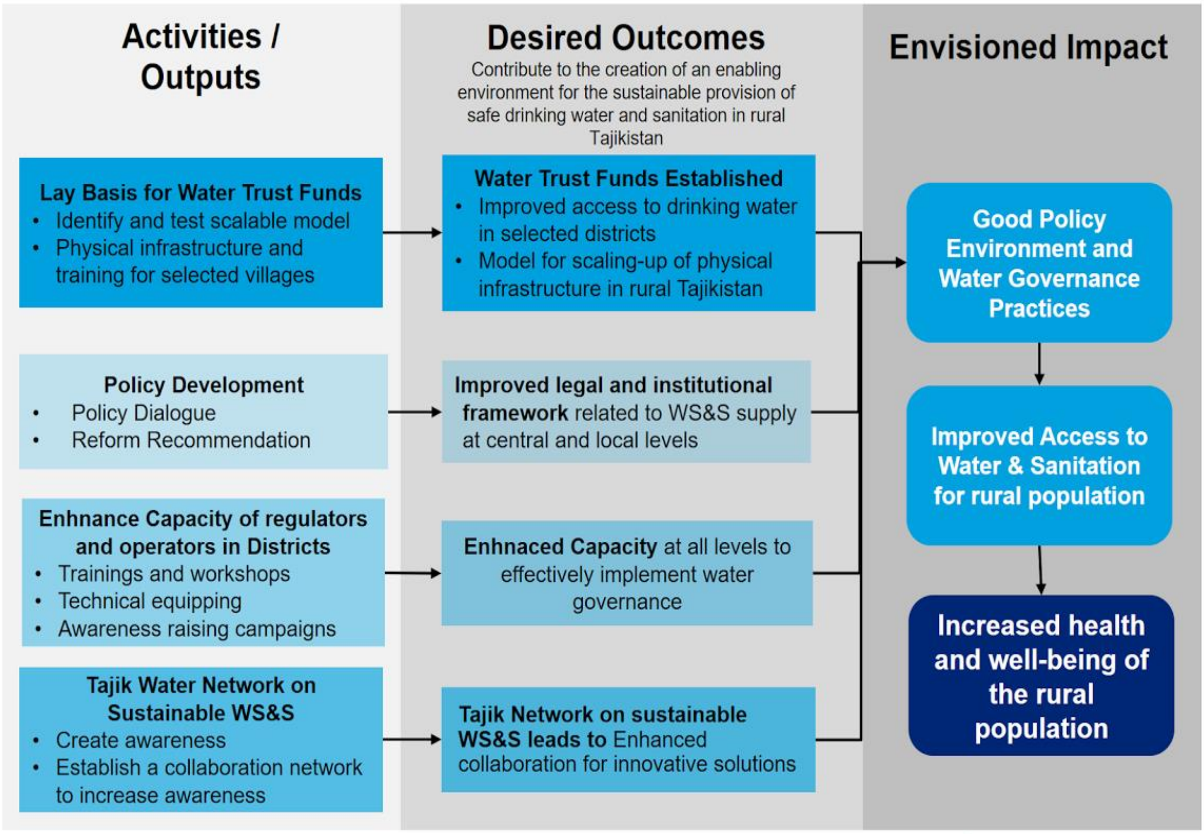


Source: Own interpretation, based on data from Koenig (2012).

Fig.3: The Four Main Intervention Areas of the TajWSS Project

Source: Own interpretation based on SDC (2013, p. 2).

Fig.4: Intervention Logic of the TajWSS Project: From Activities to Impact



Source: Own interpretation based on Koenig (2012).

Context, Editorial Notes and Disclaimer for this Collection of Short Papers

This course took place as part of the Contextual Studies at Master's Level at the University of St. Gallen in the Autumn Semester of 2016. Contextual Studies constitute a pillar of the educational concept at the University. They provide students with an opportunity to develop intellectually and culturally beyond the scope of core studies and afford greater freedom for faculty regarding the topics, didactics and delivery formats of courses that reside in the Contextual Studies program.

In addition to the short papers compiled in this document, participating student teams presented their work in a one hour session in class. The presentations were each focused on one of the streams in development thinking and teams were called to cover four steps:

1. Provide an overview of the respective development theory
2. Outline a single policy that is aligned to the development theory described in step one.
3. Give one example of a development program that was implemented as a result of the policy described in step two
4. Reflect on and analyze the impact that was generated through the general theory and the specific example

In addition to the content and skills training this course provides, the causal chain in the presentations allows participants to see that theory matters greatly for the social reality we construct and for the policies that induce social change.

Disclaimer: All papers presented in this document are the result of the research by the participating student teams in this course. Views expressed in this document are therefore not necessarily the views of the Humanistic Management Center and we do not warrant the accuracy of any data presented therein. If you are a member of an organization featured in this document and do not consent to any of the content presented here please get in touch so that we can remove or correct any possible misrepresentation.

For further information on any aspect of this document or the course please contact Ernst von Kimakowitz under ernst@humanisticmanagement.org.

The Evolution Development Thinking Theories, Policies, Implementation 2016 Edition

Collection of short papers researched and written by the participants in the Master's Level course on Development in the Contextual Studies at the *University of St. Gallen* in the Autumn Semester of 2016

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