Developing nations have hit the rocks

The dire situation on debt means there is no chance of eliminating extreme poverty without radical change

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It is natural for people to focus on problems at home. But it is also essential to take a wider view. The succession of shocks — the pandemic, supply constraints, Russia's invasion of Ukraine, soaring inflation and tightening monetary and financial conditions — have adversely affected large parts of the world economy, but the weakest countries and the most vulnerable people within them, above all. All this has had (and will have) dire consequences for economic development, the alleviation of poverty and even political stability in poor countries. These challenges, which emerge clearly in the World Bank's latest Global Economic Prospects report must not be ignored. They certainly give its new president, Ajay Banga, a formidable in-tray.

The World Bank's summation of the consequences of these shocks, made worse by the longer-term slowdown in the growth of world trade, rising protectionism, the build up of debt and the worsening climate crisis, is grim. What can justly be called a "polycrisis" has "dealt an enduring setback to development in emerging and developing countries, one that will persist for the foreseeable future. By the end of 2024, economic activity in these economies is expected to be about 5 per cent below levels projected on the eve of the pandemic." Worse, in more than one-third of the poorest countries, incomes per head will be below 2019 levels in 2024. This will have far-reaching effects: the impoverished and insecure will find it hard to improve their own human capital or that of their children. Today's disasters will radiate far into the future.

As has long been the case, east Asia and south Asia are expected to perform relatively well. But performance elsewhere, notably in Latin America and sub-Saharan Africa, is forecast to be poor. Yet this has to be set in a longerterm perspective. The report indicates that, without China, incomes per head of emerging and developing countries have stagnated

relative to those in highincome countries since the middle of the last decade. The relative incomes per head of the low-income countries have stagnated for even longer. In brief, the reduction in global inequality seems to have stalled. (See charts.)
The causes of this long-term stagnation in relative incomes are many and complex. They lie in domestic policy and politics, as well as in the global environment. But one factor must be rising protectionism and the slowdown in the growth of world trade. Notably, the volume of world trade grew at an average rate of 5.8 per cent a year between 1970 to 2008, while gross domestic product growth averaged 3.3 per cent: trade was an engine of growth. Between 2011 and 2023, the average growth of world trade was a mere 3.4 per cent, while that of global GDP fell to 2.7 per cent. This is not deglobalisation. But it is definitely what some now call “slowbalisation”.

Today, however, many of the most daunting challenges are financial. The long-term accumulation of debt, especially by low-income countries, is interacting with higher interest rates and turbulent credit markets to create serious debt difficulties. As usual, these include not just higher cost but reduced supply: credit, once again, is rationed. Thus, the report notes that one out of every four emerging and developing economies has now in effect lost access to international bond markets.

The evidence supplied on the impact of tightening credit conditions is both striking and disturbing. Since February 2022, the cost of borrowing for C-rated borrowers has jumped by an extraordinary 14.4 percentage points. As a result, the growth forecast for 2023 for these countries has collapsed from 3.2 per cent a year ago to just 0.9 per cent now.

Yet debt pressures on the poorest countries are not a new phenomenon. Net payments of interest on public debt as a share of government revenue in low-income countries have not only risen significantly since the pandemic but have long been above that of the average of all emerging market and developing countries. Substantial debt relief is needed. Much of that will have to come, in one way or the other, from China. Today, remarkably, bilateral debt owed by low-income countries to the high-income members of the Paris Club has become less than half that owed to non-Paris Club countries, mainly China.

The dire situation on financing and debt has become pressing. There is no chance that extreme poverty will be eliminated without urgent and radical change. The same is true if needed investments are to be made in climate mitigation and adaptation. Nor is it conceivable that the problems of poor countries with weak credit ratings will be addressed by the private sector on its own. There is an overwhelming case for urgent, effective and generous action.

Next week’s “summit for a new global financing pact” in Paris offers a valuable opportunity to make rapid progress. But it is important that such progress be made cooperatively with China. The needed changes must build on the recognition that what is going on now is as unsustainable as it is undesirable. They must be addressed at the urgent needs of

both people and planet. They must bring down the cost of existing debt and provide the resources and risk-sharing instruments needed to generate affordable financing in future. Yes, the shocks of recent years have made generous and effective action more politically difficult in high-income countries. Frightened people become inward-looking. But these shocks have also, beyond any doubt, made action more vital. Banga has inherited what is, if wisely used, an institution more valuable as a pulpit than as a bank. In these hard times, he must use it well, to bring the world together to tackle these highly urgent challenges.

New model of humanitarian aid is needed for the Sudan crisis

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Today Sudan is facing nationwide starvation and state collapse. Just four years ago, when non-violent protests brought down the 30-year dictatorship of President Omar al-Bashir, the country seemed to have a bright democratic future within its grasp.

But the hopes of the tens of thousands of Sudanese refugees and diaspora members who returned home were cruelly thwarted — by generals who sought power to satisfy their avarice and by a cynical international response that pandered to those soldiers in the name of stability. However, there is a chance to respond to the current crisis with a new financial model for diplomacy and humanitarian action.

Fighting erupted in the capital Khartoum in April, pitting a conventional army headed by General Abdel Fattah al-Burhan against paramilitaries led by General Mohamed Hamdan Dagalo, known as "Hemeti". Since then, neither side has landed a knockout blow.

In the meantime, more than a million have abandoned their homes. Already an estimated 160,000 have reached Egypt. Eventually many will make their way to Europe.

In Khartoum — and increasingly in other Sudanese cities — people are dying of starvation, thirst, heatstroke and untreated illnesses in their own houses and apartments. Doctors and health workers are struggling to keep hospitals open. They need electricity, water, medical supplies — and salaries.

The conventional model for humanitarian operations is food convoys and emergency medical stations. Those may be appropriate for the crisis that is unfolding in rural areas of Darfur, but starvation in Khartoum warrants a radically different approach: delivering cash directly to people. For those who have money in the bank, this means mobile banking using cell phones. For those who have relatives abroad, money transfer services. For everyone, direct credit to their phones.

The technologies are tried and tested. Kenya has some of the most advanced mobile money systems in the world. Somali money transfer companies have experience in operating where there's no functioning government. And aid agencies have increasingly moved towards cash as the most effective form of assistance. Sudan's crisis demands that we take this to scale.

Financial diplomacy can help unlock the political crisis too. For the generals, the battlefield is only part of the contest. The other more strategic part is money. Both sides need huge material resources to pursue the war. The Biden administration in the US imposed

targeted sanctions on military-related businesses, but so far these measures are a tool without a strategy.
A bolder step would be to support Sudan's financial technocrats and set up an independent, civilian-run banking sector. This could include a central bank of Sudan independent of each of the warring parties. This has happened elsewhere, including Libya and (briefly) in Yemen.

When American and Saudi Arabian negotiators met the warring parties in Jeddah in early May, the belligerents represented themselves — not state institutions. Neither participated as the "government of Sudan". There's a vacuum waiting to be filled. And on the basis that, in this war, it's the money men who are the kingmakers, that vacuum should be filled by civilian technocrats.

Support from international financial institutions will be vital. Sudan will need a financial bailout and reconstruction funds. The country's donors and creditors should start by putting those funds exclusively under civilian control.

Averting starvation and state collapse in Sudan requires cash-based humanitarianism and assertive financial diplomacy. We owe it to the courageous Sudanese civilians who brought down a dictator.