



German Development  
Institute

Deutsches Institut für  
Entwicklungspolitik (DIE)

Annual Report 2011 – 2012

## **Annual Report 2011 – 2012**

*Building bridges between  
research and practice*

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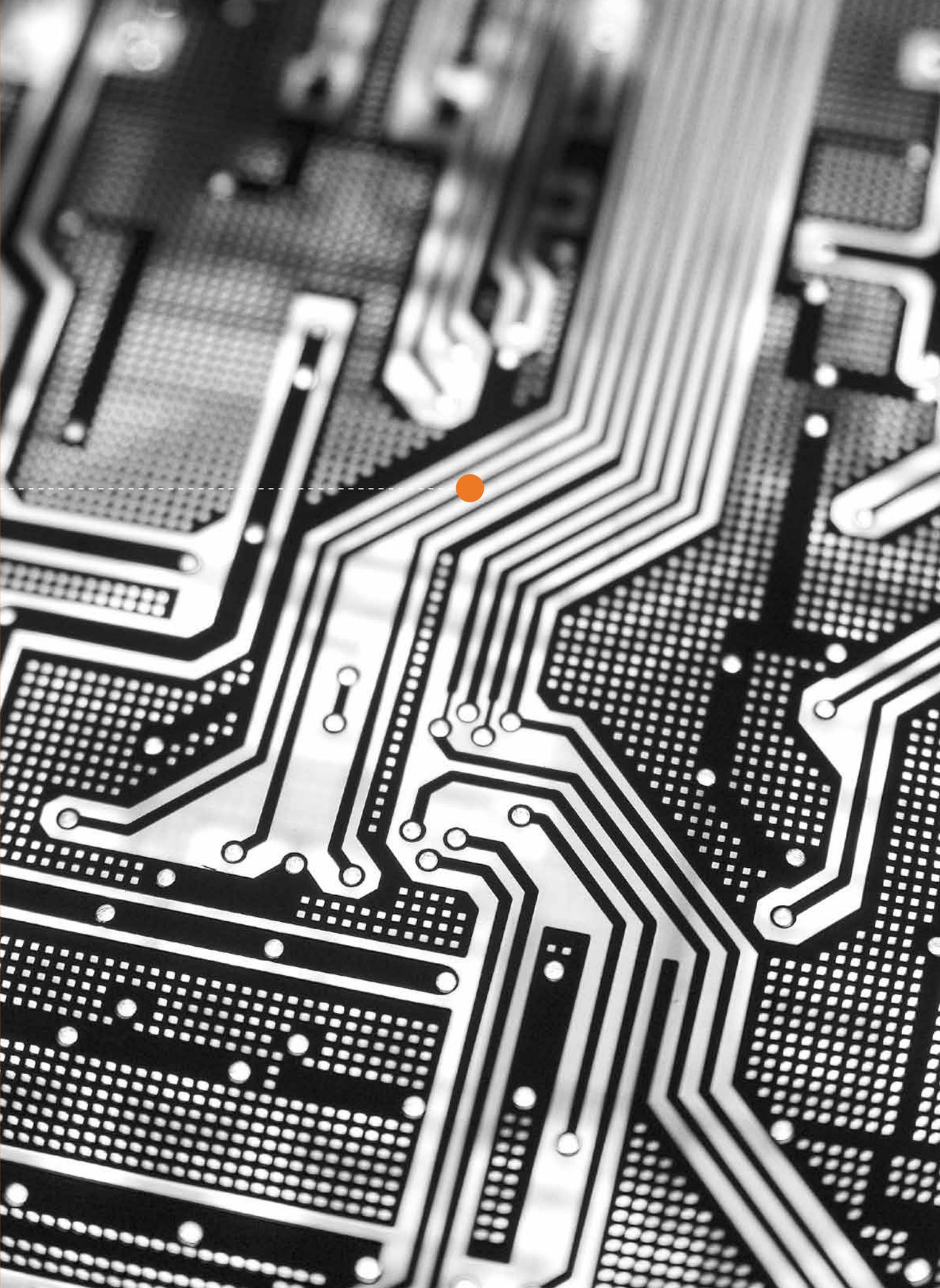
## **81 Board of Trustees**

## **The minds of DIE**

(cover)

*path.finding* .....

Does science need to  
be translated?





Two debates have merged in the past two years and will continue to occupy us in the future: the debate on the post-2015 development agenda, 2015 being the year by which the Millennium Development Goals were meant to have been achieved, and the possible adoption of sustainable development goals, a debate that arose in the context of the Rio+20 summit. The merging of these two agendas is a process fraught with conflict, because it concerns not only the priorities of international cooperation, but also adjustments to changed realities.

Not all the goals on the millennium agenda will be reached by 2015, and poverty will not have disappeared from the scene. Quite the contrary: dwindling shares of national income in the lower income groups and increasing inequality are a growing problem even in old industrialised countries. The 2012 summit in Rio failed to agree on common goals for global sustainable development; the final declaration refers to 26 action areas, headed by measures to combat poverty and improve access to food, water and energy. These four action areas could become the core of a new, global agenda for sustainable development: less poverty and inequality throughout the world.

However, this agenda will be really future-oriented only if it proves possible to define global targets that lead to appropriate measures being taken in every member state of the United Nations – the most urgent problems faced by the poor countries are related to supply and access, while for the rich countries the overriding objective must be to de-couple energy systems from the supply of fossil fuels and to curb the consumption of natural resources. It is also essential for the large emerging economies to be actively involved in defining and implementing this agenda – without their experience, competences and resources it will not be possible to make globally perceptible improvements and, at the same time, to carry along the poorest developing countries. And this agenda should also support the current negotiations on the protection of such global public goods as the climate, biodiversity and the oceans and advance the implementation of decisions that have been taken. The negotiations on the world trade order similarly need to be included: the world trade system must become more open to the transfer of sustainable technologies and manage the international supply of foodstuffs and other basic commodities in such a way that it does not have any adverse social and ecological effects.

*left:*

**Dirk Messner**

Director

*right:*

**Imme Scholz**

Deputy Director

An agenda of this nature will not leave development policy unaffected: its agenda, too, will have to change, as must the forms of cooperation it adopts. This new sustainable development agenda will have the opportunity to place cooperation with developing countries on a basis that seeks to change economic relations in the medium term, to reduce social inequality and to transform infrastructures and sees this as a task for processes of change worldwide. The experience gained in many decades of development cooperation can be used to advantage in this, as can public and private financial resources, the knowledge of universities and research institutions and the technological skills of private-sector actors whose core business is focused on this transformation process.

The work of the German Development Institute/ Deutsches Institut für Entwicklungspolitik (DIE) is geared to helping to answer these global questions about the future. Our own excellent research enables us to provide policy advice and to offer basic and advanced training courses. In this context, we cooperate closely with our networks of partners at research institutions in Germany, Europe and elsewhere in the world. In 2012 the DIE was placed among the top five

development think tanks for the fourth consecutive year by the Global Go-To Think Tank Ranking panel of experts and among the 20 think tanks with the most innovative policy ideas and proposals. We present these ideas to the United Nations High-Level Panel for the post-2015 global development agenda and to the World Bank's and European Development Commissioner's advisory committees.

The Institute is taking new paths in its cooperation with the Käte Hamburger Kolleg/Centre for Global Cooperation Research at the University of Duisburg-Essen. This centre is the latest of ten Käte Hamburger Kollegs, international centres for research into the humanities supported by the German Ministry for Education and Research, and was set up by the Institute for Advanced Study in the Humanities in Essen, the Institute for Development and Peace in Duisburg and the DIE. It studies global cooperation, which it sees as the key to coping effectively and legitimately with pressing transnational problems, and works with top international researchers, primarily from developing countries. The aim of its ambitious interdisciplinary research programme is to enable a dialogue to take place in which approaches originating in the social sciences can be compared with others from the fields of psychology and of cognition and behaviour research, with a view to determining how cultural premises and dynamics of emergent global governance structures can contribute to global cooperation.

Many examples of the work of the DIE's committed researchers can be found on the following pages. The Institute has the active support of its shareholders (the Federal Republic of Germany and the State of North Rhine-Westphalia) and the Board of Trustees. We would like to express our gratitude to them.



**Federal Minister Dirk Niebel**

Federal Minister for Economic Cooperation and Development

The years covered by this report, 2011 and 2012, were years of unprecedented change and innovation at all levels of German development policy. As well as the organisational and institutional reforms that were undertaken and received considerable public attention, this dynamic period of change also saw a major surge of modernisation in terms of ideas and paradigms. Being rather more complex and multidimensional, this was a process that naturally drew less attention from the general public. And so I would like to just look back over a few of those changes.

**We have**

- vastly improved the effectiveness and efficiency of German development policy by thoroughly overhauling our structures – Germany is no longer punching below its weight in the development field;
- taken a quantum leap towards more coherence in Germany's ODA and stronger political governance;
- taken decisive steps to end the decades-long neglect of rural areas in development policy, which is at the root of many of the structural problems our partner countries face to this day;

- focused German development policy on the areas that are key to future-proof development (good governance, education and training, health, rural development, protection of the climate, the environment and natural resources, and economic cooperation);
- made use of many new opportunities to build synergies through cooperation with the private sector, churches, foundations and civil society;
- adopted the German government's first-ever inter-departmental Africa strategy and started implementation immediately;
- raised to a new level our development cooperation with what we term "Global Development Partners" (the major emerging regional and global powers of the 21<sup>st</sup> century).

The German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) has been closely involved in this surge of modernisation since the beginning of the parliamentary term. Sometimes it has expressed approval, sometimes criticism. But its contribution has always been constructive, inspiring and based on sound research. This has borne out the deci-

sion taken by Walter Scheel, the politician who became Germany's first minister for economic cooperation and today enjoys great cross-party respect, to create the DIE back in 1964 not as an official state authority that was bound by the instructions of the government but as an independent research institution. In this way, he guaranteed the DIE the freedom that is accorded to science and research by Germany's constitution, the Basic Law (Article 5, Paragraph 3, Sentence 1).

Germany's Christian-Liberal government takes this duty very seriously. With our new academic freedom act, which is about to enter into force, we are boosting the national and international competitive standing of our many and varied non-university research bodies. This act will free them from the constraints of regulatory and budgetary requirements that have become increasingly counterproductive.

What is more, neither of the DIE's two shareholders – the German federal government and the state of North Rhine-Westphalia – has ever succumbed to the temptation to make funding levels contingent on the degree to which the institution's research findings were politically opportune or aimed to please. Quite the opposite, in fact. By massively increasing levels of project-specific funding over recent years – in addition to stable and reliable levels of core funding – the German government has been instrumental in establishing the DIE as a permanent fixture amongst the ranks of the world's top development policy think-tanks. The fact that the DIE has, three times in row, come within the top five in not one but two of the categories used in the Global Go-To Think Tanks Report is eloquent evidence of that fact – as is the excellent report given to the DIE in its evaluation by the German Council of Science and Humanities and Professor Messner's appointment to the top advisory bodies of the EU and the World Bank.

I am also delighted that Professor Messner did not hesitate to offer his services as an advisor and provider of research-led ideas to former German President Horst Köhler, who has been selected as one of the eminent

persons who are to work on a new global development agenda. This will give Germany an even stronger voice in this important international debate.

The DIE's next annual report will be published in 2014, the year it turns 50 and just three years after the BMZ's own 50<sup>th</sup> anniversary. By then, I sincerely hope that we will have another good reason to celebrate. I look forward very much to the DIE joining the Gottfried Wilhelm Leibniz Scientific Community. I am pleased that the DIE management took on board my suggestion to apply for membership of this association of 86 top German research institutions. Membership in the Leibniz Association would provide clearly visible proof of the DIE's record of excellence in the fields of research, advice and education and maintain it at the very highest level. It would also open up to the DIE many new opportunities to cooperate and compete, making it much less financially dependent on the grant funding provided by its shareholders.

With its special programme for education and research and the new academic freedom act, the German government has paved the way for a long-term strengthening of research, teaching and advice in Germany, particularly in the non-university sector. If the DIE continues to seize the opportunities this offers, its place in the Champions League of development research will be assured for many years to come after its anniversary. I, for one, am already looking forward to the DIE's big birthday and am sure that we will have every reason to celebrate together!



### **Angelica Schwall-Düren**

Minister of Federal Affairs, European Affairs and  
the Media of the State of North Rhine-Westphalia

The Rio+20 summit is over, the results a disappointment to many. What the politicians now have to discuss is the “post-2015 agenda”, in which many parallel processes and objectives will need to be coordinated: the Rio+20 follow-up process, the implementation of the conclusions drawn at the UNCTAD Conference in Busan, the continued development of the MDGs, the UN Climate Conference and, not least, the Doha Development Agenda, which is to be resumed after the breakdown of the negotiations in Geneva in 2008. It is essential now that these various strands should be combined to create synergies rather than exist side by side or even counteract each other.

The Busan conference in late 2011 succeeded in going some way towards overcoming the traditional division of roles between “donors” and “recipients”. It also contributed to integrating economically successful emerging countries, the private sector and civil society into the Global Partnership for Effective Development Cooperation without completely abandoning the principle of “aid effectiveness”, the core concern of the 2005 Paris Declaration and the 2008 Accra Agenda for Action.

Although the details of the new partnership are sketchy, it is clear that it will gain in dynamism, and

from the outset, it must be accompanied by a system of objectives and indicators that enable the progress of implementation to be monitored. And ultimately, it must be linked to the other international development processes mentioned above.

Without effective support from research, this will not be feasible. In the past two years the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) has continued to consolidate its reputation as one of the world’s leading development think tanks. With its sound specialist knowledge and its increased international networking, it is extremely well equipped to monitor these international processes. Policy advice continues to be the DIE’s core task.

At a remarkable side event entitled “Sustainable Development Goals: From ‘silo thinking’ towards an integrated approach”, the DIE, in cooperation with the European Commission, gave the Rio+20 conference in June 2012 some important indications of the direction that a sustainable global development policy needs to take.

The Rio 2012 outcome document “The Future We Want” demonstrates the willingness to pursue sustainable development goals beyond 2015 with a

view to making targeted progress towards sustainable and humane global development. The State of North Rhine-Westphalia intends to make its own contribution to this process with its One-World Policy.

This will also mean aligning our own living standards with the demands on global sustainable development.

The Third Bonn Conference on Development Policy held in January 2012 by the State government of North Rhine-Westphalia jointly with the DIE and other partners drew attention to the considerable collective influence that life styles and consumption patterns in the wealthy countries of the North have on conditions in developing countries and emerging economies. The Conference made it clear that global sustainable development will be possible only if North and South succeed in adopting development-friendly life styles that are not only the privilege of an enlightened and well-off minority, but are absorbed into the everyday consumption patterns of large sections of the population.

As the Minister for European Affairs of the State of North Rhine-Westphalia, I am particularly pleased that the DIE is now active at European level. A few weeks ago, it joined with North Rhine-Westphalia at its

offices in Brussels in staging a well received debate on the subject of the Arab Spring, with the focus on democracy and human rights. It is to be hoped that this joint endeavour of the State Government and the DIE in the Brussels arena does not remain a one-off event.

The Annual Report now before us is evidence of the high quality of the work done by the DIE and demonstrates why it continues to figure among the world's leading think tanks in the development field and has even succeeded in further strengthening its position. For the State of North Rhine-Westphalia, the presence of the DIE is an important factor in our engagement for sustainable development policy and for the growth of the international city of Bonn.

I would like to thank the staff of the DIE for their commitment in the past two years and hope that the Annual Report receives wide public attention and has an impact to match.

*path.breaking* .....

Does research make  
waves, or does it have  
a major impact?



# Policy advice at the German Development Institute

An important motive for the research work undertaken at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) is to make the findings available for the strategic decision-making processes that development policy entails. There has been considerable demand for policy advice from the DIE in the past two years: the question of how to cooperate with developing countries in the future and in what areas has been exercising those who frame official German and international development policy, other government departments and, of course, non-governmental organisations.

The DIE has participated in these debates in various ways and at different levels. To give some examples, Dirk Messner was appointed to the scientific bodies advising the World Bank and the EU Development Commissioner; at the request of the German Ministry for Economic Cooperation and Development (BMZ), the DIE discussed the BMZ's 2011 development policy concept with representatives of German and European

universities, research institutes and think tanks; and Imme Scholz, Ines Dombrowsky and Alejandro Guarín presented in Germany and other European countries as well as to the World Bank and the Inter-American Development Bank the policy recommendations outlined in the 2012 European Development Report concerning aspects of inclusive and sustainable water, energy and land management. In the context of the incipient debate on the international post-2015 development agenda and the Rio+20 Conference numerous members of the DIE staff have taken part in the German and European discussion on the relationship between poverty reduction and the protection of life-supporting natural systems in the future alignment of international cooperation. These issues were also the focus of inquiries received from non-governmental and religious organisations active in development cooperation.

When the results of our research work and reflections are compared with the demands of practical

policy, we repeatedly ask ourselves what can (and what cannot) be achieved with policy advice based on the social sciences. Wolfgang Streeck, Director of the Max Planck Institute for the Study of Societies in Cologne, has also raised the question of the usefulness of such policy advice. He concludes that politicians are, understandably, interested not in theoretical statements, but in statements that are "of practical relevance to them" concerning underlying causes that "can be so influenced by political means that their effects change to what is wanted." What sounds so clear proves very tricky when it comes to implementation, since human societies do not behave in accordance with general laws: each is a unique collection of people in which a wide range of factors interact in a unique way. Certain general statements are possible, such as "economic cycles occur in a market economy." But each society reacts to them in its own way. Are the social sciences, then, concerned only with measuring, counting and

observing individual cases? For individual societies (and for the policy that shares the responsibility for their welfare) describing the effects of policy on society accurately is no small matter. But, Streeck argues, the social sciences are quite capable of more: they can give policy-makers "access to an extensive storehouse of experience that is as well ordered as it can be." With this treasury of experience, they can warn policy-makers of the risks and point out long-term consequences of current trends and incompatible objectives. And, with an eye to favourable experience in other countries and societies, they can encourage a change of action.

Two examples of our policy advice in 2011 and 2012 illustrate what our research in the social sciences can do for development policy.

Poverty alleviation is the great classical goal of development policy – but what is poverty? How can it be described, how are its various dimensions (income, life expectancy, health, education) linked? Nicole Rippin

has studied these questions and developed a new index which captures the fact that households may suffer deprivations in a number of areas simultaneously and shows how they are linked, since it makes a considerable difference whether or not a household has inadequate access both to the education system and to the health system. The new measure is the Nicole Rippin's Correlation Sensitive Poverty Index (CSPI), an improvement on the Multidimensional Poverty Index introduced by the United Nations Development Programme (UNDP) in 2010. A detailed description of the CSPI begins on page 24. Rippin presented her index to the UNDP's statisticians at some length and was also invited by the German Institute for Economic Research (DIW) to develop, on the basis of her index, a multidimensional poverty index specifically for Germany, the German Correlation Sensitive Poverty Index (GCSPI).

The rise of the large dynamic developing countries in the world economy and in world policy is one of the

main new challenges for development policy. Cooperation with them continues to be important, but the classical framework of development cooperation is unfit for the purpose. The DIE has formed a partner network with research institutes in eight large emerging economies to enable this rise to be observed and the findings made available for the benefit of Germany's and Europe's wide-ranging cooperative relations. The network forms part of the Managing Global Governance programme, which is being implemented jointly with the GIZ on behalf of the BMZ. The joint research in the past two years has focused on the agencies and strategies that have been established in Brazil, China, India, South Africa and Mexico in the context of South-South cooperation. What priorities and efficiency parameters guide the cooperation programmes of these emerging economies? Do they assume that the OECD countries will cooperate or compete with them? Thomas Fues (DIE), Sachin Chaturvedi (RIS,

## The international orientation of DIE



India) and Elizabeth Sidiropoulos (SAIIA, South Africa) have published the world's first book on this subject (see page 75) and, in 2012, presented their findings at the meeting of the United Nations Development Cooperation Forum in New York. Building on this, the DIE helped to arrange the first think tank workshop to be held at the UN Secretariat, where the draft of the UN's next International Development Cooperation Report was presented for discussion.

### **Imme Scholz**

Dr. Imme Scholz is Deputy Director of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). She is a sociologist and

obtained her PhD from the Free University of Berlin. Her research focuses on questions at the interface of environment and development.

These examples show that development research is capable of producing findings of relevance to areas of policy other than development policy and of usefully considering the newly emerging models of cooperation – a conclusion that is hardly surprising, given the aforementioned economic and political power shifts in the international system, which will also make their mark in the decades to come.

obtained her PhD from the Free University of Berlin. Her research focuses on questions at the interface of environment and development.



# How to face the year 2030 – DIE's new strategy for research and policy advice

With its new research strategy, the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) positions itself as a centre of excellence for global development, national development challenges in non-OECD countries and for international cooperation. Today, we are at a point in time where radical economic, political and environmental changes are happening, forcing us to re-evaluate conventional approaches in research (e.g. calling for multidisciplinary work), in training and in institutional settings for policy solutions (e.g. with a view to the sectoral division of labour between ministries and increased cooperation between global, regional and national levels of policymaking). The strategy represents a new attempt to produce synergetic results in a more systematic way.

In the following we will present five narratives which frame our cross-departmental work at the Institute. They were selected in an exercise where we first identified global dynamic trends for the next two

decades which produce radical (rather than incremental) change and thus modify conditions for national development. Detailed programmes for research and policy advice which feed into these narratives are elaborated by the five research departments. A number of cross-departmental task forces are combining the expertise and disciplines from several departments at promising thematic interfaces.

What are the coming decades likely to bring in terms of worldwide economic, social and political developments? What will this mean for our policy field – cooperation with developing countries – and our research and advisory work? Economic globalization changed economic structures in the last three decades, it allowed for shifting patterns of wealth and rising global incomes, and it will continue to do so. Economic globalization is accompanied by power shifts towards a multipolar world at global level, and at some places by movements against ruling elites at the national level.

These global processes create opportunities for national development, as illustrated by growing incomes and shares in global output.

In the last few years, these power shifts were exacerbated by the financial crisis and economic recession which shook North America and Europe, and whose outcomes are still unclear as economic recovery in Europe is uncertain. Without changing its regional focus, development research, suddenly, is not dealing anymore mainly with marginal countries, but also with the new gravity centres of the world economy into which the large emerging non-OECD countries are transforming.

High economic growth rates and rising incomes in developing countries are associated with high energy and resource use. Aggregated economic activity has reached a size which – in a business as usual scenario – is very likely to lead to irreversible changes in the natural environment at global scale (tipping points) during the 21<sup>st</sup> century. According to Nobel laureate Paul Crutzen, we are living in the Anthropocene – an era where geological change can be attributed to the cumulative impact of human activity. Avoiding irreversible and dangerous environmental change will require keeping the material impacts of the global economy within a range that is safe for ecosystems. This means public policies that organise wealth creation, poverty reduction, democracy and stability within the planetary boundaries, at national and global levels. This challenge is still unknown territory which needs to be explored.

Successful development processes therefore do not only depend on sound macroeconomic policy, social policies and effective governance (national and global), but also on whether we master these environmental challenges. The aim is to improve wellbeing and to avoid the rebound effects of economic and income growth at the same time. This task will lead to frictions (how to prioritise between short and long-term benefits, between social, economic and environmental objectives?) at national levels, and will pose enormous challenges also to international cooperation which will be expected to ease those frictions in poorer

countries, and which will increasingly depend on successful transformation processes towards sustainability in rich countries (old and new).

Against this background we identified five development narratives on which we will focus between 2013-2018:

1. Changing Patterns of Poverty: The global poverty landscape is changing dramatically. One billion people have risen out of poverty over the last decade, and the share of the poor in world population is decreasing, despite population growth. At the same time, the absolute number of global poor continues on the rise, China accounts for nearly all of the world's reduction in poverty in the last decades and income inequality is rising almost everywhere. There are countries that seem to leave poverty behind, and others where poverty solidifies. DIE's poverty research agenda will compare the poverty-performance of different patterns of economic development, draw conclusions for pro-poor policies, and investigate how poverty and inequality are related to factors in the fields of statehood, democracy and governance.

*Further reading: "What is poverty? The Correlation Sensitive Poverty Index (CSPI)", page 24.*

2. Sustainability-Oriented Transformation in Developing Countries: For developing countries the reconciliation of economic, social and environmental objectives presents a particular challenge. Key questions in this context include: What do we mean by sustainability-oriented transformation and how can it be measured? What factors promote a sustainability-oriented transformation and what is the political economy of transformative change? How can developing countries deal with synergies and trade-offs in terms of the different objectives of a sustainability-oriented transformation? Research puts particular emphasis on the agriculture, water, forest and renewable energy sectors.

3. Transformation of International Cooperation – From Aid to Global Public Policies: The traditional distinction between advanced and developing countries, donors and recipients is increasingly obsolete.

Development aid is losing importance for many partner countries as their overall wealth increases and their dependence on grants decreases. At the same time, new forms of international cooperation are required for the provision of global public goods. Our main objective is to identify new patterns of cooperation and most promising ways of international collective action in the provision of (global) public goods which reflect these new realities and go beyond current aid relationships. A special focus will be on reforms of global economic governance, including regulation of foreign direct investment and financial markets. Cooperation with the fellows of the Käte Hamburger Kolleg/Centre for Advanced Studies on Global Cooperation Research which is a joint effort by DIE, Universität Duisburg-Essen and Kulturwissenschaftliches Institut Essen will be extremely helpful.

*Further reading: "The post-2015 development agenda – a new start for international cooperation", page 28.*

4. The Future of Democratic Governance: From a long-term perspective, democracy has been on the rise. Structural forces in favour of democratisation and the diffusion of democracy and human rights seem to be at work. Nevertheless, puzzles over the performance, origins and persistence of democratic governance are far from being resolved and are often linked to controversial interpretations of political phenomena. DIE will investigate first the international diffusion of democratic respectively autocratic structures. Second, we will analyze the developmental impact of democratic governance. Third, we will address questions of multilevel governance from a perspective of democratic governance, thereby providing evidence on whether and how democratic elements improve the problem-solving character in settings of multilevel governance.

*Further reading: "International democracy promotion: new opportunities, old problems", page 32.*

## Our five strategic narratives

### Changing Patterns of Poverty

The DIE experts analyse when and how economic growth translates into poverty reduction with a strong focus on comparing the poverty-performance of different patterns of economic development and drawing conclusions for pro-poor policies.

### Sustainability-oriented Transformation in Developing Countries

DIE's work focuses on the financial and technological implications of the sustainability-oriented transformation, what factors and coalitions promote or hamper such a transformation, and how international cooperation needs to be reshaped.

### Transformation of International Cooperation

DIE experts focus on identifying new patterns of cooperation and search for promising ways of international collective action in the provision of global public goods such as climate and environmental protection and financial stability.

### The Future of Democratic Governance

This research agenda investigates the international diffusion of democratic and autocratic structures, analyses the developmental impact of democratic governance and addresses questions of multilevel governance.

### The Development Implications of the New Middle Classes

The DIE experts explore the meaning and scope of the new global middle classes and their implications for domestic processes of change and for international policy.

5. The Development Implications of the New Middle Classes: If current economic trends persist, Asia will be home to roughly two thirds of the middle class worldwide, and the share of current OECD countries will have shrunk to 20 percent by 2030. This explorative narrative refers to a truly global phenomenon. It is a new area of research for which expertise will have to be gradually built. Areas of enquiry include: the meaning and scope of a global middle class (i.e. income brackets, differing national definitions), implications for domestic

processes of change (i.e. divergence or convergence among the global middle classes), and implications for the international arena (potential to alter the landscape of international relations in several domains).

*Further reading: "The rise of the New Middle Classes", page 38.*

With this research agenda, DIE will be able to make valuable contributions to the paradigm changes in development thinking and international cooperation practice in the coming years.

#### **Dirk Messner and Imme Scholz**

Dr. Dirk Messner is the Director of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE); professor for Political Science at the University Duisburg-Essen; Deputy Chair of the German Advisory Council on Global Change (WBGU) and Co-Director of the Käte Hamburger Kolleg/Centre for Global Cooperation Research.

Dr. Imme Scholz is Deputy Director of DIE. She is a sociologist and obtained her PhD from the Free University of Berlin. Her research focuses on questions at the interface of environment and development.

Research Strategy  
Transformation of International Cooperation  
Radical Change  
Multi-Level Governance  
Narratives



..... *path.connecting*

Path dependency  
or using intelligent  
connections to  
achieve goals?

# What is poverty?

## The Correlation Sensitive Poverty Index (CSPI)

What is poverty? For a long time poverty has been equated with a lack of income. Proponents of this view argue that income is a suitable indicator of the economic resources available to meet the many basic needs that people have. This approach appears plausible, but it is highly controversial: in developing countries in particular poor population groups often have limited access to markets to meet their needs – especially when it comes to such public goods as health and education. With growing frequency multi-dimensional approaches have therefore been adopted in the literature on the subject.

The first step at international level was taken by the UN Development Programme: the 2010 Human Development Report (HDR) presented the Multidimensional Poverty Index (MPI) developed at the University of Oxford. The MPI differs from other indices in being calculated on the basis not of national averages but of household data. This makes the calculation

more time-consuming and more difficult, but it also has one great advantage: averages cannot reflect the fact that poor people usually suffer deprivations in many dimensions of poverty at the same time. Simultaneous deprivations of this kind can be captured only by household data. This aspect in particular has taken the ability to measure poverty a major step forward.

The MPI measures poverty in the three dimensions of “health”, “education” and “standard of living”, which are captured with a total of ten indicators. Anyone suffering deprivation in more than 33 percent of the total of the weighted indicators is considered poor on the MPI scale. The figure is calculated as the average of that total in the poor population. This very simple method of calculation makes the MPI extremely popular. Its use of simultaneous deprivations is, however, too simple: as it is determined solely from average figures, it cannot capture inequalities within the poor population group. In how many dimensions

## The Structure of the Multidimensional Poverty Index (MPI)

### Three Dimensions of Poverty

Health	Child Mortality	At least one child under the age of 18 died in the household
	Nutrition	At least one household member is malnourished
Education	Schooling	No household member has at least five years of schooling
	Enrolment	At least one child in school age is not enrolled
Living Standards	Cooking Fuel	The household uses harmful material for cooking (straw, dung, wood, coal etc.)
	Sanitation	The household's toilet is either unhygienic (no facility, open lid, etc.) or shared
	Water	The household's water source is unprotected or more than 30 minutes away
	Electricity	The household has no access to electricity
	Floor	The floor material of the household consists of sand, earth or dung
	Assets	The household doesn't own a car and not more than one of seven assets (radio, telephone, mobile, etc.)

Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

a household is poor makes no difference to the MPI. In wholly practical terms, this means that the quickest and cheapest way to reduce poverty in any country is, by definition, to target all poverty-reducing measures at improving the living conditions of households immediately below the poverty line. Such an approach will exacerbate existing inequalities, which are not only disadvantageous for growth, poverty reduction and human development in general, but also act as a breeding-ground for social tensions and conflicts.

Without a doubt, the MPI has taken the international measurement of poverty a crucial step forward. But what needs to be done to counteract policy measures that promote inequality? The author has found an answer in the development of a new multidimensional poverty index, which has the same advantages of the MPI, but is also capable of capturing inequalities. This is the Correlation Sensitive Poverty Index (CSPI). Like the MPI, the CSPI counts the indicators of deprivations

suffered by each household. But instead of calculating the average of this total figure, the CSPI introduces an additional weighting factor per household. This weighting factor depends on the (weighted) number of deprivations with which a household is having to contend. Thus, the larger the deprivations, the higher the household's weighting factor.

A weighting factor of this kind is essential if political decision-makers are not to find themselves unexpectedly in a situation where the policy measure they meant to be pro-poor proves to be clearly anti-poor. It alone will ensure that any measure that deprives a poor household of goods and allocates them to a less poor household leads to a rise in the poverty index. A simple example is an education policy measure that cuts food subsidies so that more school buses can be acquired. This affects two poor households: the first cannot afford the transport costs to get its children to school, while the second is living at subsistence

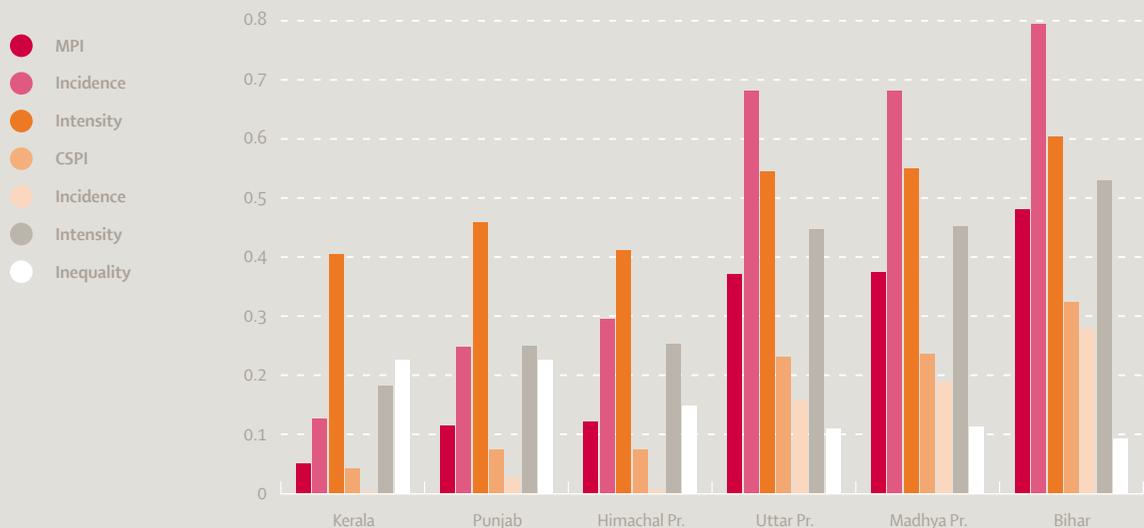
level and invests all its resources in food. The measure consequently enables the first household to send its children to school, but the cuts in subsidies force the second below subsistence level, and it is no longer able to feed its children adequately. Without a weighting factor, the poverty figures do not change at all. The policy measure appears to be a complete success: while poverty remains unchanged, the school enrolment rate rises. This simple example already reveals the urgent need for a weighting factor that increases the poverty figures in response to the measure and draws attention to the worsening of the second household's living conditions.

How high the weighting factor ultimately is will be determined by the political decision-makers. Rather than selecting a threshold value arbitrarily (33 percent or any other percentage), there is a clear theoretical guideline for that choice: the greater the importance to be attached to inequality, the higher the factor

chosen should be. Countries with harsh budget restrictions, for example, can use the choice of the factor to ensure that their scarce aid resources benefit those in greatest need.

Being sensitive to inequality, the CSPI meets a requirement explicitly referred to by Nobel Prize winner Amartya Sen, who has repeatedly pointed out that the two components of which the MPI is composed, (i) the *incidence of poverty* (the poor as a proportion of the total population) and (ii) the *intensity of poverty* (the average number of deprivations), do not, on their own, form an appropriate information base for the measurement of poverty. Any "reasonable" poverty index must also be able to provide information on the *inequality of poverty* (the distribution of simultaneous deprivations in the poor population group). The CSPI is just such a "reasonable" poverty index, one that is capable of depicting all three components, as the figure shows. While the incidence of poverty in the

### Comparison of MPI and CSPI



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Indian states of Kerala and Himachal Pradesh, for instance, is low, they should adopt different policy ap-

proaches, because Kerala's main problem is inequality, Himachal Pradesh's the intensity of poverty.

### Nicole Rippin

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to introduce during prolonged research stays at the University of Oxford, the Human Development Report Office (HDRO) and the German Institute for Economic Research (DIW).

Inequality  
Correlation Sensitive Poverty Index  
Multidimensional Poverty Index  
Measurement

# The post-2015 development agenda – a new start for international cooperation

In 2015 the Millennium Development Goals (MDGs) of the United Nations (UN) are to be replaced with a new global development agenda. The progress made towards the MDGs and the process of defining the new development goals give cause for optimism: even at times of political and economic crisis, agreement on a new global development agenda seems possible.

The MDGs have had a major influence on development cooperation since they were first introduced. They have placed development policy firmly in the minds of the international community. Other indications for a positive impact of the MDGs are more indirect. The MDGs correlate with increased spending on development cooperation but an improvement in living conditions in developing countries is difficult to prove. Although the impact the MDGs have had at country level is disputed and the MDGs have been widely criticised, they are considered, on the whole, to have been a successful development cooperation in-

strument. The interest in and expectations of a follow-up agreement are therefore correspondingly high.

Many actors have already stated their views on what should appear on the new agenda. Yet it is still unclear on which of the proposals for a new framework the international community will ultimately be able to agree. What is certain, on the other hand, is that an agreement must be reached under more difficult conditions for international cooperation.

Against the background of the continuing global economic and financial crisis and of international agreements that regularly fail, the dominant feeling is one of scepticism about the possibility of agreement on a new global framework for international cooperation being reached with the post-2015 agenda. The World Trade Organisation, for example, has made no progress for over a decade. The international climate negotiations have been trading water. Many observers therefore see international cooperation as being in crisis.

In 2001, the United Nations announced eight Millennium Development Goals (MDGs). Each goal consists of several

targets. In most cases targets are quantitative, facilitating the assessment of their achievement.



Source: UNDP Brazil

And indeed, political differences are already becoming apparent during the process of identifying goals for a post-2015 agenda. Parallel institutional structures have been created within the United Nations. UN Secretary-General Ban Ki-Moon appointed a High-level panel of Eminent Persons to develop a proposal for a post-2015 development agenda, while the Rio+20 Summit decided, at the urging of the G77 to set up another group of experts to formulate Sustainable Development Goals. Although the two groups have been assigned similar tasks to perform within a comparable time frame, the division of labour between them is unclear. This gives cause for concern about the possibility of building on the success of the MDGs.

2015, however, will not be the first time the international community faces seemingly insurmountable obstacles to agree on a global development agenda. Already in 2000, immediately before the announcement of the MDGs, the conditions were unfavourable. Forging

a political consensus on the priorities for development cooperation had proved difficult at a number of international conferences in the 1990s. Moreover, official development assistance had decreased since the end of the Cold War. Agreement on global development goals seemed unlikely at that time.

One of the criticisms levelled at the MDGs shortly after they were announced was that they were not binding. Yet the very fact that these global objectives were non-binding and based on voluntary commitments subsequently proved to be an advantage. Especially in today's political climate this flexibility may encourage industrialised countries, developing countries and emerging economies to come to a consensus. If a consensus on a global post-2015 agenda is to be reached, all the actors involved must build on the experience gained with the MDGs particularly in three areas:

1. Expanding a proven goal and target system: In substance, the post-2015 agenda can emulate a

proven goal and target system. The majority of the MDGs include quantitative indicators that have documented and promoted social progress – especially in the areas of poverty reduction, education and health. The ability to measure the progress of development has had a mobilising effect: it strengthens accountability. The quantitative goal and target system should therefore be retained and expanded.

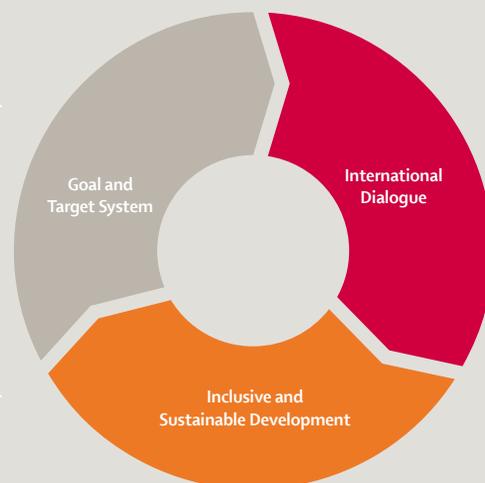
2. Strengthening international dialogue: Government actors and experts in industrialised countries were the main driving forces behind the formulation of the MDGs. Today a wider public is taking part in the development of the post-2015 agenda. A process of global consultation with governments, NGOs, the private sector, academia and think tanks is laying the foundations for a wide range of actors to share the basic values of the agenda. The process of defining the post-2015 agenda thus already has greater legitimacy than was the case with the MDGs. This dialogue must be continued and strengthened.

3.) Making inclusive and sustainable development the objective: One of the criticisms voiced by developing countries in particular is that none of the MDGs except MDG 8, a set of vaguely worded commitments, sets targets for industrialised countries. Many of the policies pursued by the industrialised countries, such as their economic and trade policies, have, however, a strong impact on development in poorer countries. Many developing countries are therefore demanding that a post-2015 agenda goes beyond development cooperation and shapes international policies as such. The MDGs are also criticised for not taking adequate account of such important issues as climate change and social inequality. A more comprehensive concept of inclusive and sustainable development should therefore become the model for a post-2015 development agenda where international cooperation goals are concerned.

The international debate on the type of agreement and the specific set of goals are ongoing. The German

## Elements for a post-2015 development agenda

*The MDG experience suggests three key elements for reaching a consensus on a post-2015 development agenda: Expanding a proven goal and target system, strengthening international dialogue and making inclusive and sustainable development the key objective of any new agenda.*



Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) contributes to the international debate on post-2015 by providing research and policy inputs. For instance, the European Report on Development (ERD) 2013, drafted together with ECDPM and ODI, will be published in spring 2013 and addresses

**Florence Dafe und Heiner Janus**

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the debate on the post-2015 global agenda. In particular, the ERD will propose elements of a post-2015 development agenda that conform to the ambitious objective of inclusive and sustainable development and foster international cooperation even in times of crisis.

Heiner Janus is a researcher in the Department "Bi- and Multilateral Development Cooperation". His research interests include the post-2015 agenda, and aid and development effectiveness.

Development Agenda

Inclusive and Sustainable Development

MDGS

Development Goals

International Dialogue

European Report on Development

International Cooperation

# International democracy promotion: new opportunities, old problems

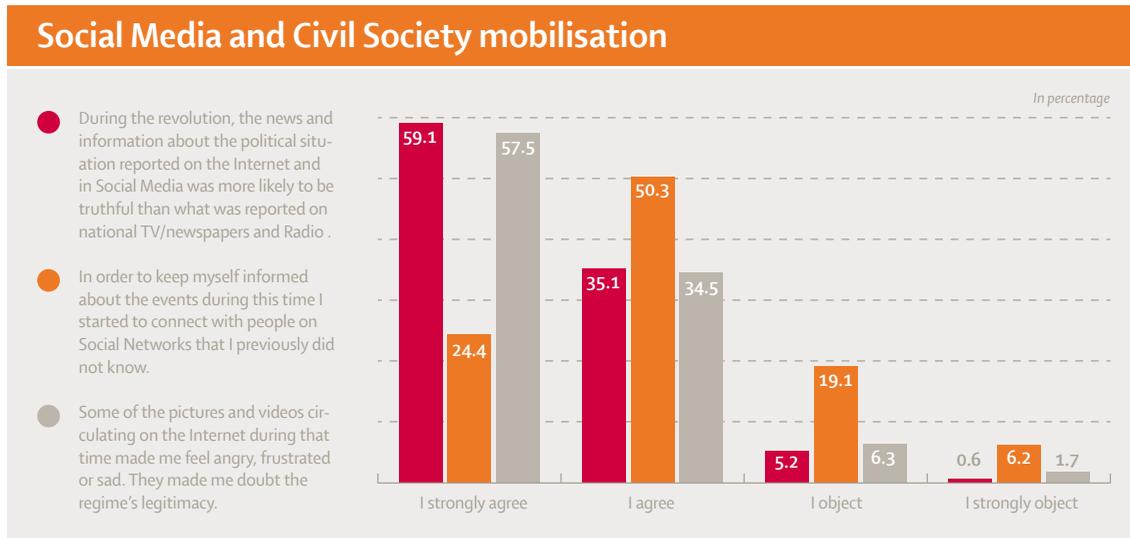
The Arab Spring has shown once more how attractive political freedom is. This development came as a surprise, because many autocracies had been considered extremely stable and because it revealed the strength of social movements and new media. The unsuspected dynamics of the Arab Spring also provide new opportunities for international democracy promotion. Diplomats and practitioners of governmental and non-governmental development cooperation are thus asking themselves similar questions about the promotion of democracy and human rights: what role do external factors play in the establishment and consolidation of democratic institutions and human rights standards? To what extent and with what means can the international community promote democracy and human rights from outside? What is appearing in a new guise in the context of the Arab Spring turns out, on closer inspection, to be very largely an old phenomenon. Yet anyone wanting to support democracy and human

rights in the Arab region and elsewhere must recognise the new opportunities while facing up to some familiar problems.

The trend towards increasingly strong network-based communication structures in a globalised society has enormous potential for the political mobilisation of societal actors. Thanks to social online networks, the cost of communication has fallen dramatically for civil society. Facebook, Twitter & Co. have also given individual internet users enhanced access to political participation and made it easier for them to assess the strength and extent of protest movements. During the Arab Spring it became clear that such alternative channels of communication severely limit the control that authoritarian regimes have over the formation of public opinion. The internet thus provides a space in which opposition networks and dissident discourses are able to form. Unlike traditional media communication with its hierarchical structures,

In the context of the project "Democracy Promotion in the Age of Social Digital Media", the German Development Institute/

Deutsches Institut für Entwicklungspolitik (DIE) conducted an online survey among 600 Tunisian Internet users.



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

decentralised communication via online social networks, depends primarily on the contributions of individual users. While authoritarian regimes are still able to fight propaganda battles in the state-controlled media, they are unable to do as much about the growing army of citizen journalists documenting. Material made available by citizen journalists has the potential to go viral on the net and to make a major contribution to the formation of collective identities.

New communication technologies facilitate coordination between geographically remote groups and so provide opportunities for transnational collective action. Successful political mobilisation strategies are often "exported" through communication among internationally networked activists in neighbouring countries, where they are integrated into the strategic repertoire of social movements. Such processes of imitation are not, however, confined to civil society: ruling elites, too, learn from and imitate successful strategies

adopted by their neighbours: Since the 1980s, the interior ministers of the Arab countries have been discussing successful ways of stabilising their autocratic regimes, strategies for controlling internet communication have come to form an integral part of this discussion.

In the light of the Arab Spring, more and more donors are openly endorsing active democracy promotion. They also stress the need to focus on non-state groups. Although this realignment of political agendas provides opportunities, old problems associated with international democracy promotion persist.

In the promotion of civil society there is room for serious doubt about the wisdom of focusing strongly on pro-democracy actors. If the building of a "sustainable democracy" is to be promoted, it will be impossible to manage without developing accountable and representative state institutions. Moreover, identifying actors who conscientiously and resolutely call for the

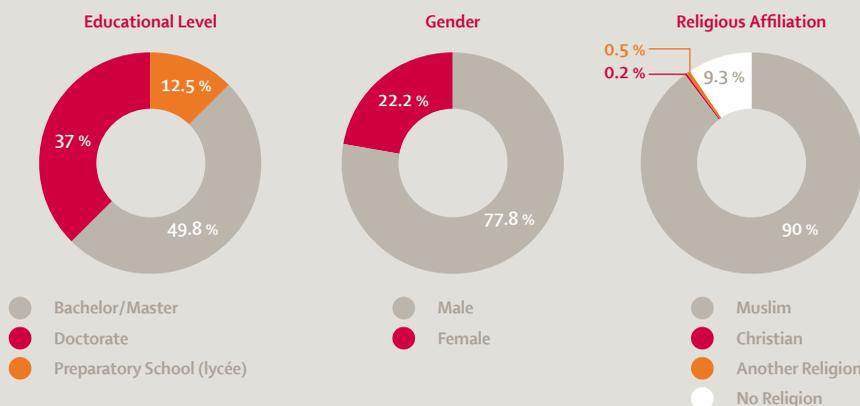
relaxation of authoritarian rule and advocate democratisation turns out, time and again, to be difficult and time-consuming. Particularly in authoritarian contexts, assessing the credibility of political actors is a major challenge. The extent to which a veil of democratic rhetoric conceals corresponding values and attitudes becomes apparent, as a rule, only during what prove to be lengthy democratisation processes. If, then, external actors intend to become involved primarily before or during a period of radical change, the forces they promote are bound to include some who may later turn out to be non-democrats. Democracy promotion faces further risks when strong external promotion of opposition forces in authoritarian contexts has a counterproductive effect: such groups may be either discredited in the eyes of the people or punished by the authoritarian regime for their activities. The more offensively external donors have supported human rights or democracy activists in recent years, the more

drastically governments have restricted their room for manoeuvre. This has been the case, for example, in Russia, where a change in the law in the summer of 2012 means that NGOs receiving money from abroad can expect to be placed under increased surveillance and even to be branded as foreign agents.

Conflicts between such normative goals as democracy and material economic and security interests will also continue to be unavoidable, despite the frequent endorsements of democracy promotion. Support for digital activism through social media, for example, may be counteracted by economic interests. Censorship and filter software used by authoritarian governments to suppress digital dissent is developed primarily by European – including German – and US firms. Familiar examples are Cisco Systems and Yahoo, who have been accused of providing the Chinese government with software with which to monitor opponents of the regime.

## Social Media and Civil Society mobilisation

*In the context of the project “Democracy Promotion in the Age of Social Digital Media”, the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) conducted an online survey among 600 Tunisian Internet users.*



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

In short, those who would like to seize opportunities provided by social media and civil society forces in democracy promotion should, first, weigh up conflicts of foreign policy objectives one against the other in

**Anita Breuer and Julia Leininger**

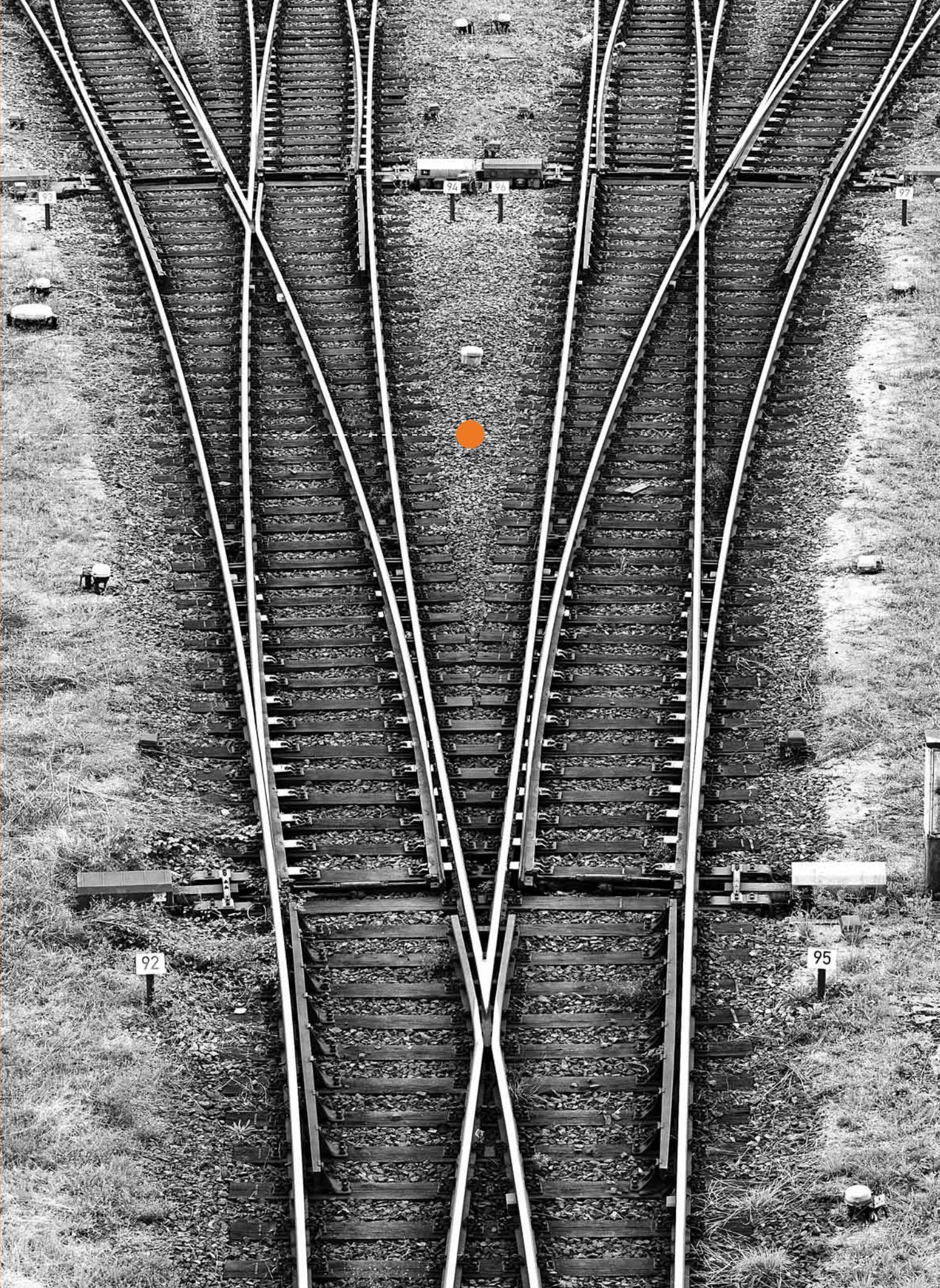
Dr. Anita Breuer and Dr. Julia Leininger are political scientists and senior researchers in the Department for "Governance, Statehood, Security" of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). The focus of Anita's research

is the role of new information and communication technologies in democracy promotion and civil society mobilisation, while Julia's areas of interest are international democracy promotion and political transformation, particularly in African countries.



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Why not depart  
from the norm and give  
inspiration free rein?



# The rise of the New Middle Classes

As poverty rates fall in many developing countries, millions of people can spend more time and resources on something other than just staying alive. There are reasons to pay attention to these people. The markets will be shaken up by the force of their numbers as consumers. Governments will ignore their demands and opinions at their peril. Cooperation between rich and poor countries will have to alter. Many of those whose fortunes are improving are said to belong to the new global middle classes. They will certainly play a key role in their countries' futures even if we do not know exactly what that will be. Who are these middle classes? Why should we care about them? And what could they mean for development?

There is no clear consensus on how to define the new middle classes. Thus far, the term refers to people in a certain income bracket; not rich, but not very poor either. Economists debate the specific levels of income that delineate this bracket. Some say it should include

those who are just above their country's poverty line – around USD 2 of income per day – but others suggest higher thresholds of USD 4, USD 10 or USD 20. The upper boundary of the middle class has been suggested to be as low as USD 4 and as high as USD 100 of daily income.

Some of these income ranges may seem quite low: someone earning less than USD 36 per day would be considered poor in Germany. Yet in poor countries even small increases in income can have a big effect on purchasing power. There is evidence that some extra income is used to buy non-basic goods, but most is channelled towards improving health, education, and housing.

However we define them, the middle classes in developing countries are growing, and are likely to soon outnumber those in industrialised countries. If we take the daily income range of USD 10 to USD 100 as our definition, by some projections the middle class will grow by more than one billion people in Asia alone



Source: Kharas, Homi. 2010. *The emerging middle class in developing countries*. OECD Development Centre Working Paper No. 285, OECD, Paris.

in the next decade. The centre of world consumption is clearly moving away from the West.

We care about the new middle classes because we expect a lot from them. Middle classes are considered central in entrenching development and making it more inclusive, underpinning a democratic political order, sustaining economic growth and fostering effective public institutions. These features of the Western middle class could provide a set of reference points to the possible significance of the new middle classes.

- **Prosperity:** Around 60 percent of the population of Western Europe, North America, Australasia and Japan could be defined as middle class. This means that most people enjoy relatively comfortable living standards, and their demand is important for maintaining economic growth. Mass consumption has, however, come with a high environmental price tag.
- **Inclusiveness:** The middle classes represent a type of social contract. They share a sense of social

responsibility through paying taxes, and they expect the state to reciprocate by providing services and social security.

- **Political transformation:** Thanks to the broad middle class, liberal democracy became the dominant political system in the developed world in the 20<sup>th</sup> Century. This process involved transforming public institutions to make them more transparent and accountable, and for placing checks and balances on undemocratic forces, including those of the market.
- **Peace:** Comfortable, well-governed countries prefer to cooperate rather than fight each other. This has led to a global web of institutions for maintaining international cooperation, entrenched by middle class soft power and popular culture.

These features may be more imagined than real, but they are implicit to the term middle class. The precise influence of the middle classes in Western countries is impossible to quantify, and yet the Western experience

has led many to expect that a similar trajectory will be followed in developing countries.

Rising incomes alone do not lead to development. Four initial observations should make us sceptical about an inevitable progression from higher incomes to broader objectives such as inclusive societies and responsive public institutions.

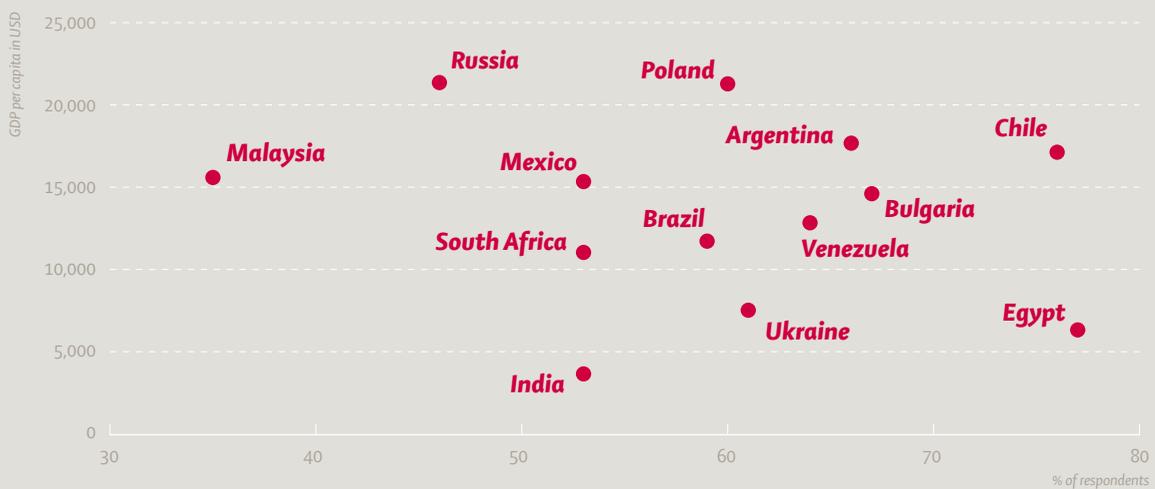
- **Consumption patterns and sustainability:** Until recently a small proportion of the world's population have placed the biggest burden on natural resources, but this will change. The growing global middle classes are bound to significantly affect the environment, but differing values and expectations about consumption make it hard to predict their specific impact.
- **Social Inclusion:** In some parts of the developing world, economic growth has co-existed with clientelist networks that crowd out more inclusive institutions. Some members of the middle classes are

more interested in preserving their status than in sharing the benefits of growth. Moreover, the persistence of high inequality in emerging economies, together with the relatively small share of national wealth owned by the middle class, indicates that existing elites are unlikely to simply step aside.

- **Political participation:** The political role played by the new middle classes takes many different forms. In India, what is expected to become the world's largest middle class is taking shape within an electoral democracy. In China, history's most remarkable instance of people escaping poverty, the middle class grows under the watchful eye of one political party. In Africa, elections have become more frequent, but it is not clear that rising wealth is leading to genuine democratic change. Wealth is not a good predictor of political values.
- **International cooperation:** Most current international institutions were set up by countries with large

**Middle class respondents: freedom of the press is very important**

(in relation to their country's average income)



Sources: World Bank online database and Pew Research Center, 2009, "The Global Middle Class: views on democracy, religion, values and life satisfaction in emerging nations".

middle classes. Support for the idea of cooperation beyond borders was crucial for this process. We do not know whether the new middle classes in countries as different as China, South Africa or Brazil will consider international cooperation as good and necessary, but their governments will not be able to ignore their opinions. Meanwhile, the electoral victory of the transnational Muslim Brotherhood in Egypt raises the prospect that international cooperation will take different forms from the Western, liberal model.

Viewing the new middle classes only through the income lens misses a great deal of their significance for development. The new global middle classes will be diverse, not just in consumption patterns but also in terms of values, politics and cultural norms. The 21<sup>st</sup> Century global development story will be about more than just poverty: it will also be about making societies more economically, socially and politically inclusive and environmentally sustainable. The new middle classes have a key role to play in that story.

**Alejandro Guarín, Mark Furness and Imme Scholz**

Dr. Alejandro Guarín is a researcher at DIE, where he works on natural resources and development, consumers and consumption in the new global middle classes, and the behavioural bases of international cooperation.

Dr. Mark Furness is a researcher in Department "Bi-and Multilateral Development Policy". His main focus is on

EU development policy, both in terms of aid effectiveness debates and the EU's re-orientation to deal with 'beyond aid' development challenges.

Dr. Imme Scholz is deputy director of DIE. Her research focuses on questions at the interface of environment and development, particularly on climate change.



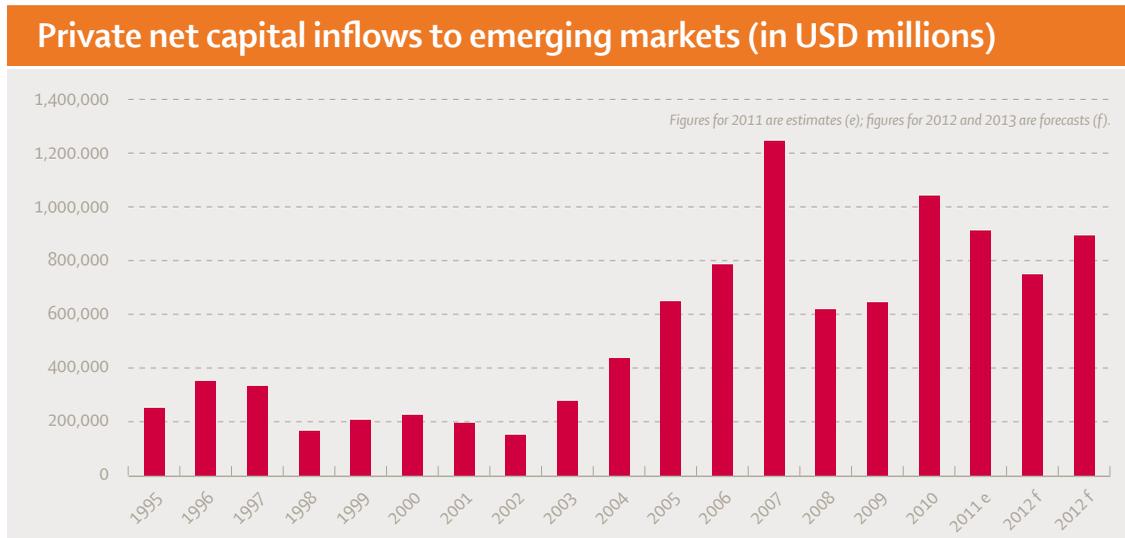
# The risks to developing countries and emerging economies posed by high global liquidity

Since the global financial crisis broke out in September 2008, the expansive monetary policies pursued by most industrialised countries have led to a sharp rise in “global liquidity”, which has not only flowed into the international commodity markets in search of a return, but also increased the magnitude of and volatility in international financial flows. For developing countries and emerging economies, too, this has profound implications.

Central banks worldwide reacted to the outbreak of the global financial crisis by rapidly lowering interest rates and making liquidity available to support the financial sector and to prevent economic collapse. Most developing countries and emerging economies came through the crisis relatively unscathed and returned as early as 2010 to what was for some of them significant growth and to a more restrictive monetary policy. The central banks of most industrialised countries, on the other hand, continue to operate in crisis mode and to pursue an extremely expansive monetary policy.

The Federal Reserve and the European Central Bank (ECB) – the issuers of the world’s two most important currencies – have, for example, increased their balance sheets enormously since the outbreak of the financial crisis. The central banks of the other major industrialised nations, such as Japan and Britain, are similarly keeping their key interest rates at an all-time low and making additional liquidity available to the markets by means of extraordinary monetary policy measures, such as the purchase of bonds.

While such expansive monetary policies are necessary to support Europe’s troubled economies and banking systems and the weak economic recovery in the USA and Japan, they also have serious implications for the rest of the world. The wide differences between the interest rates of the major industrialised nations and those of the emerging economies are, for instance, leading to “carry trades”, capital flows to emerging economies where risk-adjusted returns are



Source: Compiled by the author based on data from the Institute of International Finance from June 2012.

higher. The inflow of capital into the emerging economies is, moreover, encouraged by the rather gloomy prospects of growth in the industrialised countries.

After private capital flows to the emerging economies had fallen by half, to USD 619 billion, in 2008 compared with the previous year, net inflows to those countries again reached, in 2010, an impressive USD 1,088 billion – almost as much as the all-time record of USD 1,244 billion in 2007, the year before the global financial system crashed. In 2011 private net capital flows to emerging economies dropped back to an estimated USD 1,030 billion in view of the liquidity problems in the European banking sector. And although the European banks are currently cutting back their international lending because of the European banking crisis and the introduction of the new EU rules on equity – which in late 2011 and early 2012 was already causing some emerging economies short-term liquidity bottlenecks in the financing of trade,

for example – the Institute of International Finance is forecasting that private net capital flows to the emerging economies will reach USD 912 billion in 2012 and USD 994 billion in 2013.

The rapid rise of global liquidity and the historically large net capital flows to the emerging economies are causing serious concern in the recipient countries about harmful side-effects. For one thing, large capital inflows put upward pressure on exchange rates, which may impede exports. For another, they may contribute to strong growth in money supply and lending and to the overheating of the economy. They also increase inflationary pressure on consumer prices and assets or even help bubbles to form in capital markets. Large capital inflows are also a threat to the stability of the financial system, especially when they lead to the development of currency and maturity mismatches, which, in the event of a rapid capital outflow, may cause serious problems. Furthermore, there is a risk

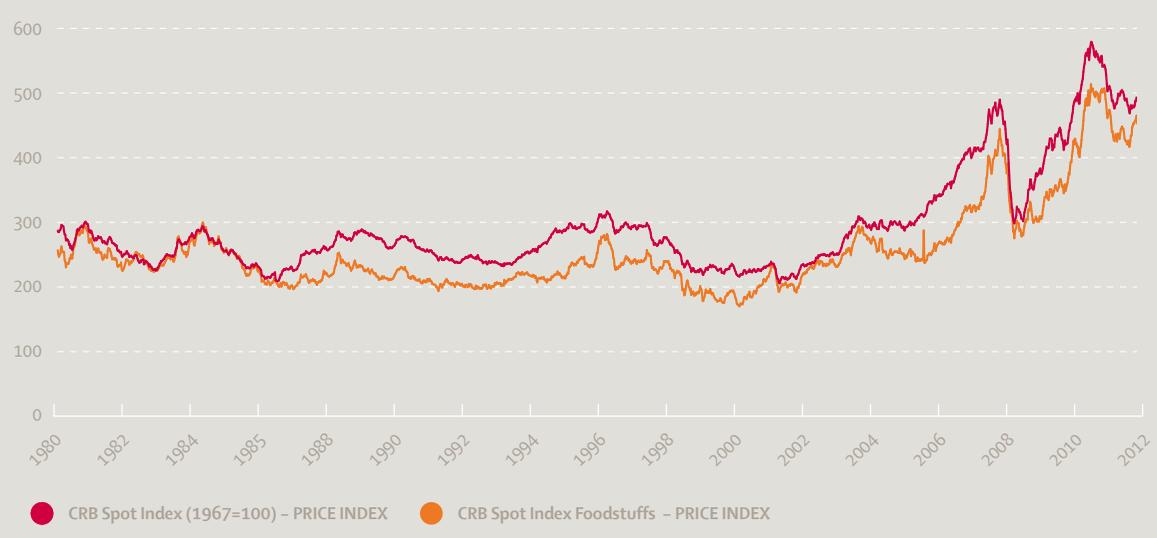
of a quick withdrawal of portfolio investments, which may result in the collapse of emerging economies' exchange rates and financial markets. The "deleveraging" of the European banks, which has helped to increase volatility in the markets, illustrates the risks to financial stability.

In addition, increased global liquidity impacts on prices in international commodity markets. In recent years these markets, including the food markets, have been "financialised", which has resulted in prices developing in isolation from fundamental data and becoming far more volatile. The high level of liquidity in the international financial markets has exacerbated this process, which has been caused by a liberalisation of the commodity markets. While high commodity prices may have favourable implications for exporting countries, since export revenues then rise, they have adverse effects on commodity importers. Price volatility has a particularly negative impact. In the food markets in

particular, major price fluctuations may have grave consequences for developing countries and emerging economies, especially for the poorest sections of their population. What is needed here is a policy that seizes on approaches to more stringent regulation of commodity trading of the type discussed, for example, by the G20 with a view to halting these trends.

In view of the continuing economic difficulties in the Eurozone and the USA, it is unrealistic to expect an early change to the expansive monetary policy course being steered by the ECB and the Fed. Given the potentially devastating consequences of abandoning an expansive monetary policy with undue haste – not only for the crisis-hit Eurozone countries and the USA, but for the whole of the world economy – such a step would also be disadvantageous for the developing countries and emerging economies, however vociferously representatives of the large emerging economies may complain about the adverse side-effects. In the

## Development of commodity prices



Source: Compiled by the author based on data from Commodity Research Bureau and Thomson Reuters.

coming years developing countries and emerging economies must therefore prepare themselves for a global economic environment characterised by high global liquidity and volatile capital flows and commodity prices.

Each country must develop its own policy mix for minimising the adverse effects of excessive global liquidity and volatile capital flows on its own economy. Besides pursuing conventional macro policies – an

anticyclical fiscal and monetary policy and adjustments via the exchange rate – recipient countries can influence capital flows by imposing targeted capital transaction controls and pursuing macroprudential policies. By introducing currency-dependent liquidity requirements, for example, supervisory authorities can reduce the incentives to domestic financial institutions to borrow foreign currency and so moderate the risk of future crises.

### Ulrich Volz

Dr. Ulrich Volz is Senior Researcher in the Department “World Economy and Development Financing”. He currently directs a BMZ-funded research project on changing international capital flows and the global financial order. His major areas of research are inter-

national macroeconomics; international economic interdependences and integration; global economic governance; currency and debt crises; and financial market development.

International Capital Flows  
Global Liquidity  
Commodity Prices  
Financial Market Stability



..... *path.clearing*

Why not turn  
the world upside down,  
if only for a moment?

# Three Priorities of Adaptation Finance

At the Copenhagen climate summit in 2009, developed countries promised to mobilise USD 100 billion per year from 2020 onwards and USD 30 billion of 'fast-start finance' until the end of 2012 to assist developing countries to deal with climate change. A new global fund, the Green Climate Fund, is supposed to channel substantial parts of the 100 billion USD, including finance for adaptation activities. With the 'fast-start' period ending and the Green Climate Fund starting up, it's time to take stock.

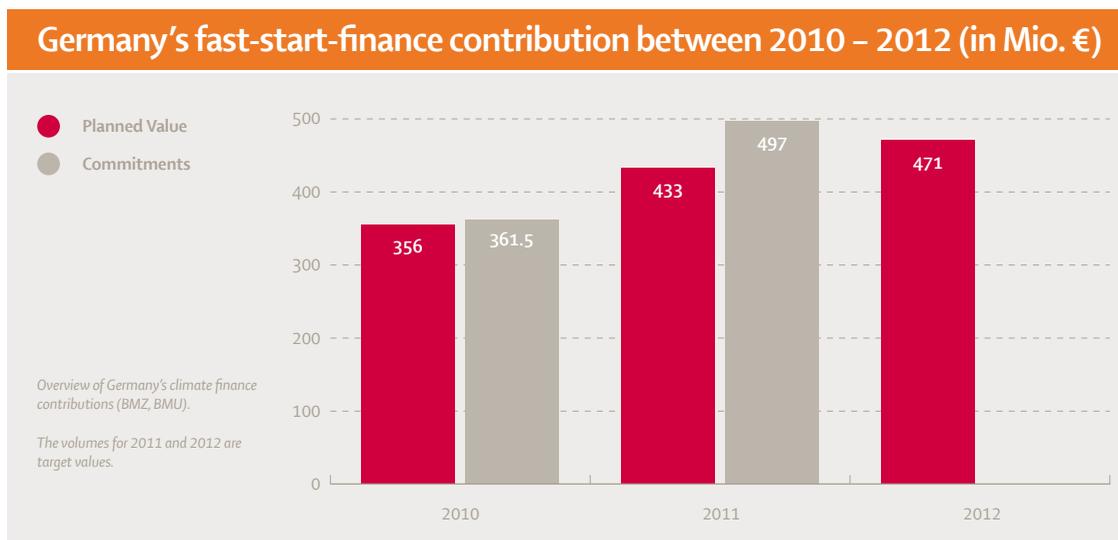
There are currently three main challenges in the field of adaptation finance. First, developed countries need to keep their promises and raise additional financing, covered by transparent reporting systems. Second, while adaptation financing should be separated at the source it must be united with official development assistance (ODA) and other financial flows on the ground to increase effectiveness. And third, adaptation funding should also target the vulnerable in practice, not only in theory.

It is not clear how much climate finance is presently provided for developing countries because a clear definition is lacking. In early 2012, developed countries declared that they have pledged USD 28 billion in fast start finance, suggesting that they almost met the USD 30 billion pledge of 'Copenhagen'. However, at a second glance, this appears doubtful. This is illustrated by the wide range of estimates of current public spending on climate: from USD 2.2 billion in the past decade according to [climatefundupdate.org](http://climatefundupdate.org) up to USD 23 billion of ODA in 2010 alone according to the Organisation for Economic Co-operation and Development (OECD). The latter is, however, not necessarily 'new and additional' to previous financial commitments, even though this is one of the prerequisites to labelling it 'climate finance'.

Whereas most of the reported fast-start finance comes from public sources, some countries also count in private investment. As with public spending, it is

Germany is planning to contribute € 1.26 billion in the fast-start-finance period (2010 – 2012). The German government defines all climate finance as additional which is above ODA

spending on climate change related activities in 2009 or which comes from innovative sources like emission trading.



Source: BMZ 2012

undefined and therefore unclear to what extent these investments count as a country's climate finance contribution. Private sector investment could become an important source of climate finance in the future. However, the Climate Policy Initiative shows that the sector's climate-related investments have so far gone to mitigation in China and India, rather than to adaptation in Lesotho or Tuvalu.

This contrasts with the pledge of developed countries to find a balance between mitigation and adaptation finance. It is the urgent task of governments to agree on what 'mobilizing climate finance' actually means and to secure that an adequate share of the future USD 100 billion per annum of climate finance is mobilized for adaptation activities in developing countries.

The lack of clarity on the amounts of climate finance underscore the need for transparent reporting systems that allow the public to keep track of how

much money is raised by whom and what it is spent on. The markers of the OECD Development Assistance Committee (DAC) are a starting point, but the OECD's procedure of self-reporting by donors on whether an activity has a principal or significant adaptation objective is not very transparent. Options for a reporting system by the United Nations Framework Convention on Climate Change (UNFCCC) are currently being explored, but do not apply to adaptation activities. The application of the reporting standard of the *International Aid Transparency Initiative* is another option. It has not yet been discussed under the climate regime but could create important synergies with the aid and development effectiveness agenda.

While the development and climate finance agendas share common goals, the debate on financing modalities divides them. The main reason is that many actors do not regard adaptation finance as aid, and therefore claim that it should not only be additional

to ODA but also that it should not be subject either to ODA conditions or modes of delivery. More than 20 additional climate change funds have been established in recent years. At the same time developed countries can fulfil their financial commitments through existing bi- and multilateral channels and they are making substantive use of these. As a consequence, the climate regime has contributed to a proliferation of funding channels rather than an integrated approach with development finance.

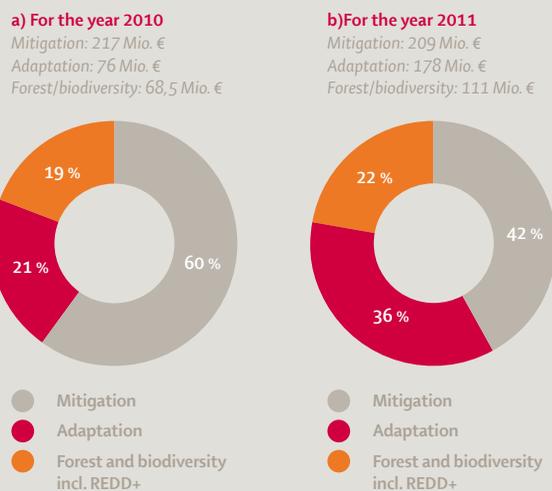
Recipient governments currently face the difficult tasks of bundling and coordinating various funding flows, financing modalities and actors and integrating them in support of national development plans. Consequently, while adaptation finance and ODA should be separated at the source, they must be united on the ground to be more efficient and effective. The creation of synergies between development and climate finance can be regarded as one of the key climate finance

challenges in the coming years. This requires designing adequate institutions and governance structures. Many countries have just embarked on this process and it is still unclear how (successful) adaptation finance and climate finance in general will finally be integrated into national systems. The direct access modality of the Adaptation Fund, where countries can use national institutions for accessing and delivering international adaptation finance, is promising in this regard.

A main priority of adaptation finance and the climate regime is to target the most vulnerable. However, empirical evidence shows a wide gap between rhetoric and practice. Adaptation finance under the climate regime is currently not being allocated on the basis of the vulnerability criterion. This implies that countries as different as Eritrea or Argentina have equal access to adaptation funding. Only the rather small Least Developed Countries Fund can be regarded as a first step in this direction. And while local level

## Balancing climate finance – a contested topic

The graph gives an overview of how Germany balanced its fast-start-finance contribution for the most important topics of the climate convention, adaptation to climate change, the reduction of greenhouse gas emissions (mitigation) and the protection of forests (REDD+). The question of how much finance should be allocated to which topic is still under discussion at the international level.



institutions are often acknowledged as key partners in adaptation strategies, the *Global Assessment Report on Disaster Risk Reduction 2011*, for example, states that dedicated budget allocations to local governments for disaster risk management “remain the exception rather than the rule”. Currently, it is unclear how much adaptation finance will be provided after the fast-start finance period ends in 2012. However, the challenges discussed above show that successful adaptation finance is not just about the amount of finance. It is

crucial to get the modes of delivery right. Developing countries have a key role here. They need to build institutions at national and local level to enhance their ownership in climate change adaptation finance. National climate trust funds could be part of this. A direct access modality like the Adaptation Fund has can take a central role and could serve as an example for the Green Climate Fund. All this should ensure that adaptation finance is directed at the most vulnerable people.

### Pieter Pauw and Britta Horstmann

Pieter Pauw and Britta Horstmann are researchers in Department “Environmental Policy and Management of Natural Resources” of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE).

Pieter's research focus is on international climate change adaptation finance, in particular on the role of the private sector. Britta's research focus is on international and national climate policy and finance.



# Thinking and learning globally: The training of young professionals

Development cooperation is changing into international cooperation: it is no longer a matter of a one-sided transfer of know-how, financial resources and experts from North to South, but of the North and South learning from each other and finding joint solutions to global challenges. The next generation of experts therefore need a global mindset which includes two aspects: an appreciation of the global context of local, national or regional problems and openness to other people's ideas and problem-solving approaches. Only then can they address such complex, cross-frontier problems as climate change, transnational crime and the volatility of financial markets, and only then will it be possible to support each other in solving endogenous problems. The greater demands to be met by future leaders in international cooperation must also be reflected in training formats.

Which expertise and skills are necessary? Sound technical and methodological skills are an elementary

need for those beginning a career in international cooperation. This is especially true of the ability to make causal links between challenges and to assess the effectiveness of individual policy approaches in complex situations. Factual knowledge, once learnt, becomes obsolete ever more quickly. The aim must be to constantly update technical and methodological knowledge and to recognise gaps in one's own knowledge. Newcomers to international cooperation do not need to be able to speak on any subject from the outset, but they must be ready to learn.

Listening, reflecting, dealing constructively with criticism or disappointment – such personal and social skills are as relevant for newcomers to international cooperation as technical and methodological know-how. They also need communication skills of the kind that are essential for the development and expansion of personal networks.

The skills described serve the overriding purpose



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

of advancing exchanges of know-how and reciprocal learning. In international cooperation skilled workers from North and South are no longer just bearers of expertise, but act as knowledge hubs. They integrate new development know-how from both South and North and pass this expertise on at various levels: in multinational fora for solving global problems; in the advice given to partner countries, whether they belong to the Global North or the Global South; and to their own society – knowing that every country in the world can and must continue to develop.

Leadership is considered relevant both to the success of teams, organisations and businesses and to coping with global challenges. What is decisive, however, is the kind of leadership that is needed. The greater importance attached to international cooperation and the change in development cooperation have altered the working environment. Inter-organisational cooperation, partnerships and the use of networks are

becoming more important, hierarchical forms of work less common. The demand is for cooperative leaders who are able to become involved in different ideas, to support them and are willing to be guided by others. Good followership is thus as important as good leadership.

Who do we select? Ideal applicants are good at everything. They are prepared to work hard, under pressure and as part of a team, they are creative and interculturally sensitive, they speak several languages, they have extensive expert knowledge and they have spent some considerable time in a developing country. That, at least, is the theory.

As such applicants do not exist, priorities must be set during the selection process. What distinguishes someone who helps to shape processes of global change? Attitudes or qualities that can be taught to only a limited degree are more important than skills that can be learnt. Willingness to learn, team orienta-

tion and good analytical skills are thus more significant than methodological knowledge.

Implications for the training: At the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) there are two training formats: the Postgraduate Programme and the Global Governance School (GGS). While the Postgraduate Programme prepares young people from Germany and other European countries for work in development cooperation, the Global Governance School forms the academic and research part of the Managing Global Governance (MGG) programme, which is run by DIE and *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) on behalf of the German Ministry for Economic Cooperation and Development (BMZ). The aim of the programme is to train young professionals from government institutions and research bodies in eight emerging economies. Applying the previous reflections to these two training courses produces a mixed picture:

1. Joint learning and dialogue have been incorporated in the training formats, an example being the modules attended by the participants in both courses. Even greater attention will have to be paid in the future to ways of promoting global mindsets. It is against that background that the North-South orientation of the Postgraduate Programme needs to be questioned. This concerns, for example, the composition of the participating groups, the emphasis placed on classical development topics and the focusing of country working groups on the Global South.

2. The training plan features both the teaching of technical skills and the strengthening of transfer and social skills. There are, for example, training units for improving communication skills and team building. The didactic challenge for the future will be to create integrative training units that place greater emphasis on teaching technical, transfer and social skills at the same time. Presentations of research findings before

## Country Working Groups of the 47<sup>th</sup> and 48<sup>th</sup> Course

**Indonesia:** Sustainability Certification in the Indonesian Palm Oil Sector – Benefits and Challenges for Smallholders

**Egypt:** Which Factors Determine the Upgrading of Small and Medium-Sized Enterprises (SMEs)? The Case of Egypt

**Tanzania:** Private Foundations and Development Cooperation: Insights from Tanzania

**Ghana:** Youth Poverty in Accra: Managing Livelihoods in Informal Apprenticeships

**Rwanda/Burundi:** Cooperation on Hydropower Projects on International Rivers – Rwanda, Burundi and their Neighbours

**Nepal:** International Support for Peace and Democracy in Nepal

**Morocco:** Building Domestic Capabilities in Renewable Energy: A Case Study of Morocco

**Indonesia:** Fostering Green Finance in Indonesia

an international audience are a good example of this.

3. The teaching of leadership skills is a crucial component of the Global Governance School. In the Postgraduate Programme this aspect plays a subordinate role. The distinction is appropriate, since those attending the GGS already have several years of professional experience, and their needs differ from those of the participants in the Postgraduate Programme, most of whom have only just completed their university education.

**Johannes Blankenbach und Tatjana Reiber**

Johannes Blankenbach and Dr. Tatjana Reiber are researchers in DIE's Training Department. Besides the Postgraduate Programme and the Global Governance

4. The challenge for selection arises from the fact that skills can be tested more easily than qualities or attitudes. It is therefore hardly surprising that the current selection procedure centres on the testing of (acquirable) skills. Assessment formats that also challenge and test elementary attitudes and qualities will need to be developed in the future.

School they work on developing new training formats and teaching methodologies.





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Where are the limits  
to growth?

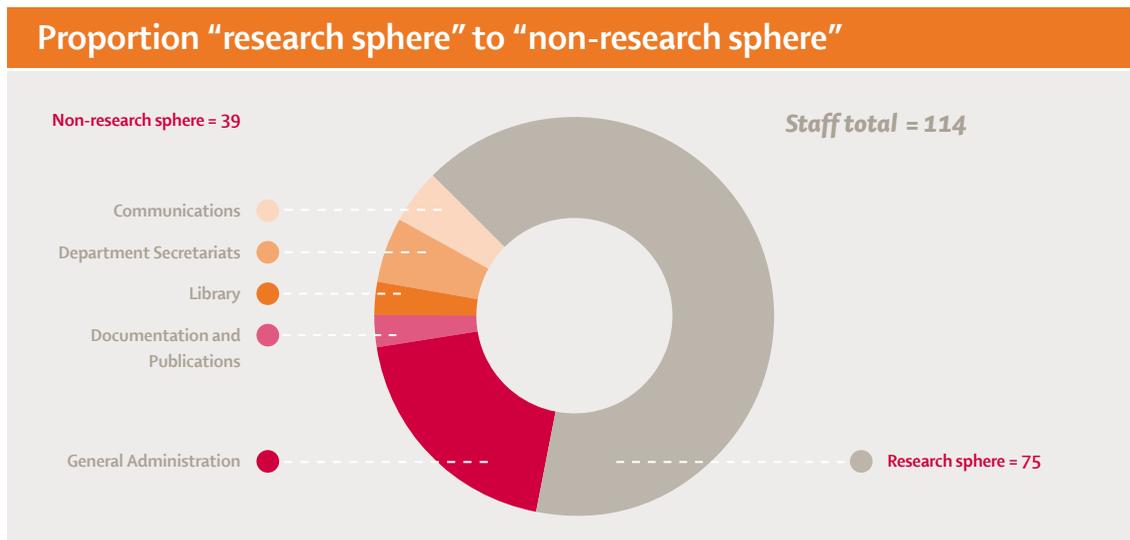
# From Administration to Service Facilities

In the spring of 2012 the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) decided to rename its Administration “Service Facilities”. This was not just a cosmetic change, as might at first be thought. Underlying the change were two very interesting paths that had been taken in parallel for quite some time by different groups of staff members, whose goals, though mutually compatible, have repeatedly been the subject of heated discussion, with no end yet in sight.

One path is determined by those who need support in their work. This is the Board of Directors, which uses such classical administrative units as the personnel, accounting and procurement offices to create the necessary infrastructure, i.e. the staffing, financial and organisational conditions that provide a secure working environment at the Institute. Then there are the researchers, whose work would be far more difficult and time-consuming, even, in some

cases, impossible, without competent support from staff members who are not engaged in research, such as the Travel and Editorial Offices, the library and the IT team.

With the processes of change that have left their mark on the DIE in recent years, research work at the Institute, too, has undergone some major adjustments. Networking in an international context takes time, requires organisational far-sightedness and diplomatic skill and often has financial implications that must also be considered. In other words, research work at the Institute involves more and more research management, resulting in different and often new demands being made on the administration by the Directors and the researchers. These demands are often accompanied by impatience and a lack of understanding if competence or results are not immediately apparent, but also by praise and recognition when the success hoped for quickly emerges.



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

The second path is taken by the administrative staff themselves. They cannot, of course, determine this path on their own. Their work is shaped by the demands made on them. But those demands, in the context of the changed environment in the research sphere, pose major challenges for this group of staff members.

While it was enough in the past for training to be followed by familiarisation with the tasks to be performed, work in the administration departments of research institutions today calls for very specific skills and profound knowledge. There is little similarity between any two areas of responsibility. The necessary diversity in the various service units requires very specific and often highly technical occupational profiles. Hence the wide range of skills and knowledge that the staff of these units offer to meet the requirements emerging from the research sphere.

Both paths, if followed consistently, have their price. Excellent research, advice and training are

possible only in a conducive environment. From the research side, critical, but objectively legitimate calls for further development, additional training and the expansion of task profiles are therefore to be heard, not infrequently joined by the cry for more administrative staff. On the administrative side there is an equally justified growth of self-confidence in those who must meet the new demands and, with their know-how, create that environment.

With self-confidence, the need for a distinct identity has also grown. The dropping of "Administration" in favour of "Service Facilities", for example, was preceded by an emotional debate. The staff of the various units hitherto generally known as "the Administration" would not agree to being known as the "non-research sphere" to distinguish them from the "research sphere". The usual negative designation of this group of staff members was questioned. Today the name "Service Facilities" embraces a range of individual,

substantively specific and clearly delineated units: General Administration, Project Coordination, Secretariats, Library, Documentation and Editing/Publications.

When the ends of the parallel paths that have been taken are considered, it is possible to identify some shared goals. The researchers rightly expect skilled and committed support to help them to reach very high standards in achieving the ambitious targets they are set. The staff required to provide this high-quality service with a great deal of commitment are equally justified in expecting to be recognised for the work they do.

The path from Administration to Service Facilities was, then, far from cosmetic. It was a process that should be taken seriously, and one that many other institutions could probably emulate.

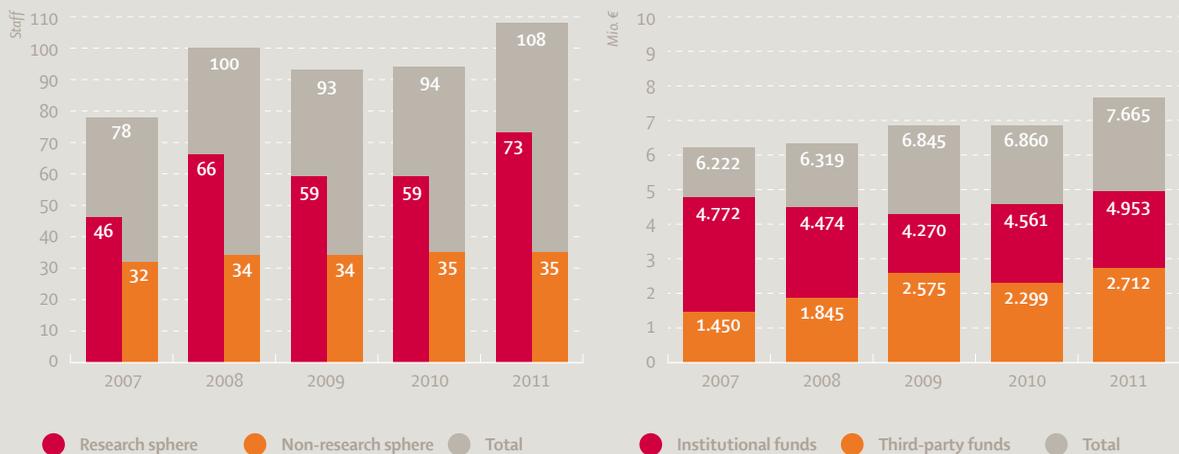
For the Board of Directors a major challenge has emerged from the two paths. Renaming the Administration "Service Facilities" has been only one of many steps in this context. It has been followed by an

increase in the staff complement and adjustments to the number of posts in some areas. But reorganising the Accounting and Financial Control Units to raise them to the level of a medium-sized enterprise and consistent investment in information technology have also been important steps in this direction.

Greater demands made on both sides call for appropriate work sequences, staffing levels and material resources in a good, family-friendly working environment. This was one reason for the "work-and-family" audit to which the DIE successfully submitted itself. The DIE's specific potential for development in eight areas of activity was systematically determined, and coordinated measures leading to a comprehensive and successful overall strategy were devised.

The quality assurance and quality improvement measures increasingly implemented by the DIE in recent years have yet to be completed and will continue to be a feature of the Institute for the next few years.

### Staff numbers and financial development 2007 – 2011



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

**Gabriele Kahnert**

Gabriele Kahnert has headed the Services Facilities of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) since October 2000. As

a member of the Board of Directors, she holds general power of attorney for all financial and administrative matters.



# Development-Policy Communication Today

It is commonly believed that “good things speak for themselves”. But this is not the case! A research institute that offers policy counselling and training like the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) should not limit itself to peddling ‘research for researchers’. In order to disseminate academic know-how smart ‘knowledge marketing’ is needed. The modern and international approach adopted by the DIE Communications team, therefore, suits our policy field and its international orientation. With its introduction of more efficient and innovative instruments for knowledge marketing and communications, the DIE is well positioned to target specific audiences with content, recommendations and strategies.

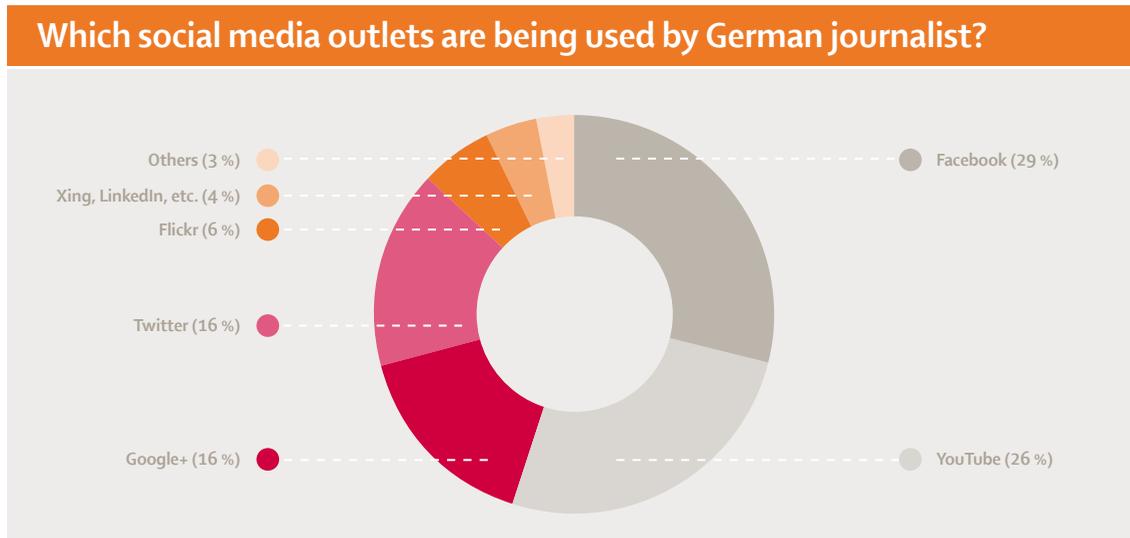
In addition to its series of academic publications – “Briefing Paper”, “Discussion Paper” and „Studies“, with the introduction of the weekly *Current Column* in October 2008, the DIE has created a format for

authors to clearly state their views and position themselves on current development-policy issues. The 50 *Current Columns* published annually in both German and English constitute a series that is recognised as an important source of information for politicians and policymakers, development practitioners, academics and the media. The series covers not only such diverse topics as the post-2015 development agenda, the rise of the middle class, land and water grabbing or poverty reduction, but devotes itself to special foci, such as the International Year of Sustainable Energy for All and the Rio+20-conference in 2012. In addition, the media partnership with ZEIT-Online enables the German version of the *Current Columns* to reach readers beyond the usual development-policy suspects.

*Find out for yourself:*

[www.die-gdi.de/en/Publications/The-Current-Column/](http://www.die-gdi.de/en/Publications/The-Current-Column/)

The most recent communication innovation is the new DIE website, which will be launched at the beginning



Source: News aktuell: Recherche 2012 – Journalismus, PR und multimediale Inhalte

of 2013. The new website signals a paradigm change – from communications focused on internal structures towards content of current interest and subject-oriented presentations of DIE academic know-how. Its clearly structured, modern design enables all visitors to more easily locate the key topics among the current themes, publications and events. The new strategic direction of the Institute is prominently visible on the Welcome page; offering direct links to the five new cross-departmental narratives (see also the Strategy Chapter, page 18).  
Visit us at: [www.die-gdi.de](http://www.die-gdi.de)

“Do you still read – or have you already begun to surf the Web?” The Internet has dramatically changed the way information is acquired. When was the last time you pulled an encyclopaedia off the shelf? Nowadays we use search engines and Wikipedia to learn about the world, yet for young people, these now ‘traditional’ features of the Internet are ‘out’ and social-media platforms like Facebook, YouTube and Twitter

are ‘in’. Although the *intelligentsia* long regarded Facebook and other social-media platforms as non-professional, today world-renowned scientists systematically use the Facebook network – with its one billion users – to present their ideas and research results. The latest trend in this regard are interactive events, where the audience and panellists as well as online-participants are posting comments, questions and photos live from the event via social-media platforms.

Social media platforms also become more important for media relations. According to an online survey among 1,400 journalists by “news aktuell”, a subsidiary of the German news agency (dpa), 78 percent of the respondents still rely on information distributed by E-Mails or acquired by search engines. But 41 percent of the journalists are already using social media platforms for their investigations or research at least once a week. And with internet-connected smart phones, the trend towards social media will further increase.

As a consequence, the German Development Institute is present on social-media platforms including Facebook, Google+, YouTube, LinkedIn and XING. By the end of 2012, the DIE-Facebook page had more than 2,800 fans. Not surprisingly, our largest Facebook user group is 25-to-34-year-olds, followed by 18-to-24-year-olds. Facebook enables us to reach a largely international audience, especially in developing and emerging countries – demonstrating that today’s social-media networks are indispensable tools for communicating our ideas and research results.

Follow us at: [www.facebook.com/DIE.Bonn](http://www.facebook.com/DIE.Bonn)

Another innovation of the last two years is the introduction of the Institute’s YouTube channel that features short German and English-language videos about the German Development Institute and DIE-produced interviews with national and international guests, including politicians, renowned scientists, high-ranking representatives of the UN and the

World Bank, as well as attendees at the Global Governance School.

See for yourself at: [www.youtube.com/DIEnewsflash](http://www.youtube.com/DIEnewsflash)

By and large, DIE’s development policy communication is focused on electronic media. Since the Institute does not work on just environmental policy and resource management topics, but also claims to use resources sparingly and sustainably, it was only logical for the DIE to cut back on printing and shipping its publications in favour of disseminating them electronically. The *Publication Update* was launched at the end of 2011 as a monthly electronic info-letter that presents short descriptions of all DIE publications in an attractive layout, with links to the authors and the original files – free of charge. As a result, we were able to reduce print copies of our academic publications to a bare minimum.

Subscribe to the *Publication Update* at: [www.die-gdi.de/en/Newsletter/](http://www.die-gdi.de/en/Newsletter/)

## How often do German journalists use social media for research?



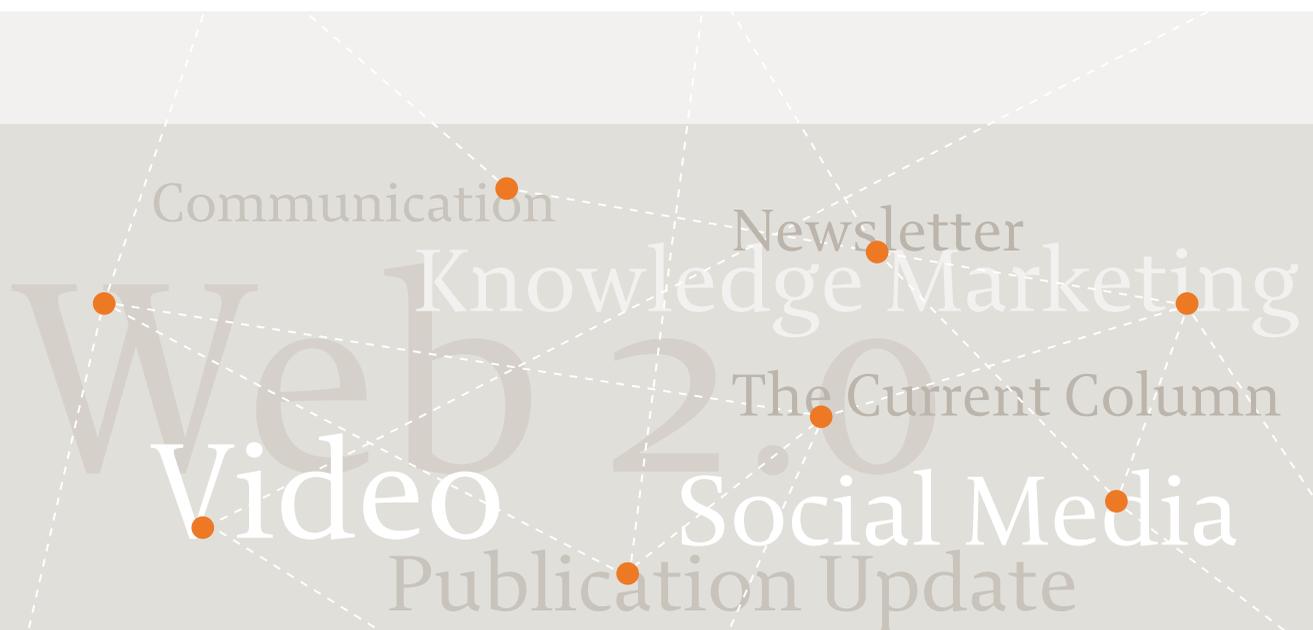
Today the German Development Institute still makes use of traditional instruments such as press announcements, printed publications and mail orders, although the focus has shifted to electronic communications and all the features of Web 1.0 and Web 2.0. However, our Annual Report is still available as a print

### **Matthias Ruchser**

Matthias Ruchser is Head of Communications at the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). He publishes on a regular basis on topics related to renewable energy sources,

copy. The Institute's communications about development policy are distinguished by their topical orientation, professionalism and use of both traditional and innovative instruments for communication. We leave it to others to communicate through slogans only.

Desertec and power from the deserts, sustainable energy for all, the German "Energiewende" and the renaissance of coal.





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Are we going the  
right way?

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Landwirtschaft in den internationalen Klimaverhandlungen: Förderung einer nachhaltigen Entwicklung oder nur zweifelhafte Emissionsminderung? (Analysen und Stellungnahmen 12/2012)

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### Publisher

German Development Institute /  
Deutsches Institut für Entwick-  
lungspolitik (DIE)  
Tulpenfeld 6  
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Germany  
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### Picture Credits

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Page 8: BMZ  
Page 10: Government of NRW  
Pages 5, 13, 22, 37, 46 and 77:  
Fotolia  
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### Layout

DMKZWO GmbH & Co. KG, Köln  
www.dmkzwo.com

### Editorial Deadline

December 2012

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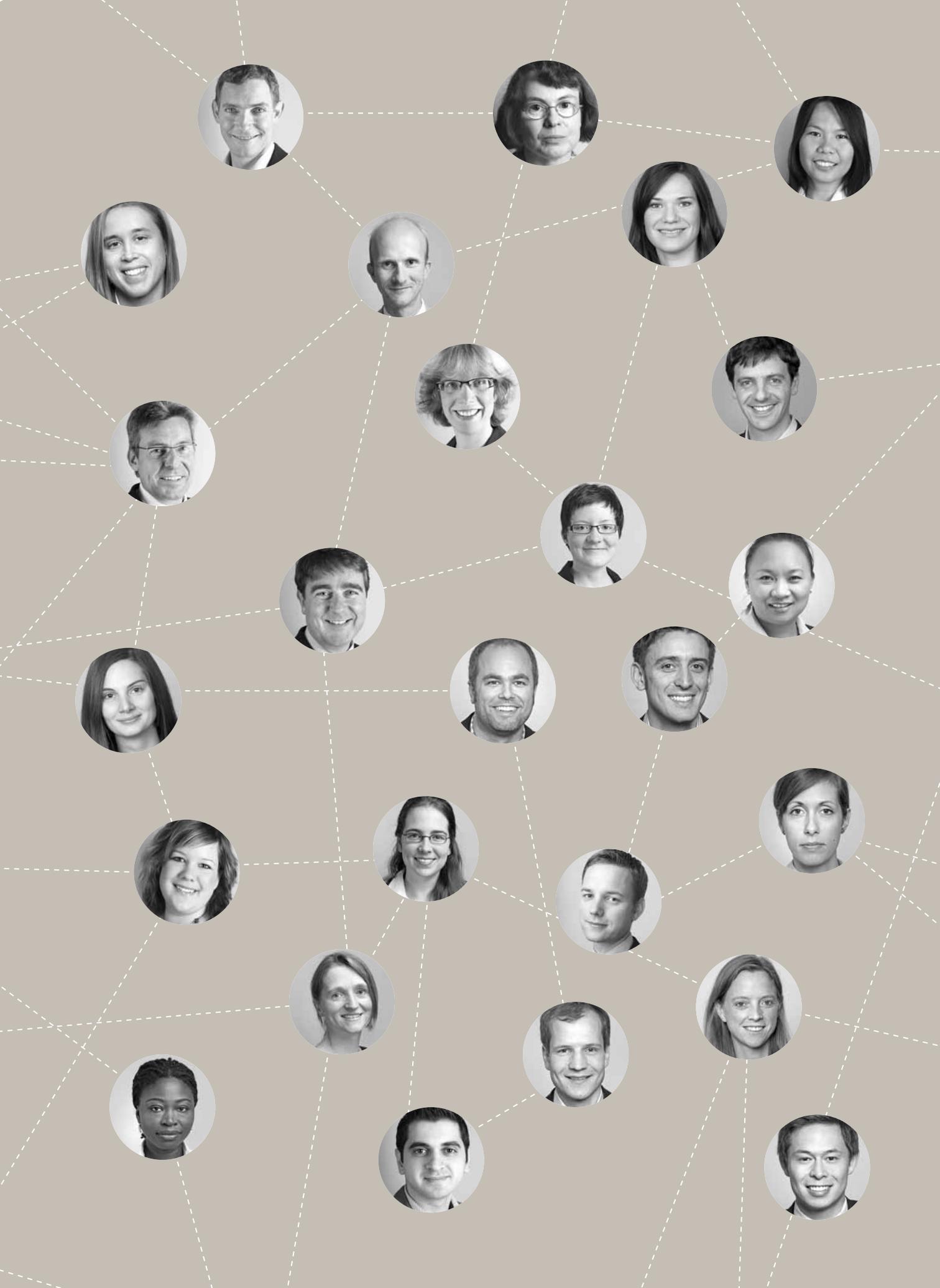
© German Development Institute /  
Deutsches Institut für Entwick-  
lungspolitik, 2012

ISBN 978-3-88985-621-0

ISSN 2190-2232

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