

Pakistan and questions over foreign aid

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In the flurry of statements on the killing of Osama bin Laden, a remark from Pakistan's ambassador to Washington, Husain Haqqani, spoke volumes about how US foreign aid tends to be perceived by its recipients. It's not enough.

"The United States spent much more money in Iraq than it did in Afghanistan," Haqqani said in a television interview. "And then it spent much more in Afghanistan than it did in Pakistan. So were there cracks through which things fell through? Absolutely."

That twisted logic suggests that if only Washington had given Pakistan a few billion more than the \$20.7 billion it provided over the past decade, bin Laden, a man with a \$27 million bounty on his head, would not have "fallen through the cracks." Those cracks were wide enough to swallow bin Laden's one-acre walled compound with a three-storey building in a garrison town near the Pakistani capital.

The mass murderer's six-year stay in Abbottabad has prompted some members of Congress to demand the immediate suspension of aid to Pakistan, others to look for reductions. Deep cuts, however, are unlikely. The 140,000 US and NATO troops in Afghanistan rely on supplies landed at the Pakistani port of Karachi and trucked through the Khyber Pass to bases in Afghanistan.

As Michael Scheuer, the former head of the Central Intelligence Agency's bin Laden unit, puts it: "They (the Pakistanis) know we need them more than they need us. They also know that the Saudis and the Chinese



REUTERS

A woman reads an article about the death of international terrorist leader Osama bin Laden on the front page of a local newspaper in Manila.

would step in with money and aid if we backed out."

Consequently, military and civilian aid is likely to continue flowing and the strained marriage of convenience between the US and Pakistan will survive this latest spat. But giving billions of dollars to a country where, according to President Barack Obama, "we think that there had to be some sort of support network for bin Laden" will probably rekindle a long-running debate over the how and why of foreign aid as a whole.

The United States is the world's biggest donor of foreign aid, giving more than the runners-up, France and Germany, put together. Last year, Washington provided assistance in one

form or another to 149 countries, according to the Congressional Research Service, the research arm of Congress. That's almost four-fifths of all the countries on earth but the aid has not made the United States the world's most popular country.

On the contrary. Why? There are a variety of reasons, including one that is not often mentioned in policy debates on aid. It has to do with human nature, according to Ken Adelman, a former US ambassador to the United Nations. In a recent essay in Foreign Policy magazine, he wrote: "Giving someone a gift generates initial gratitude (often along with gripes about why it wasn't bigger). The second time the gift generates less gratitude

(and more such griping). By the third iteration, it has become an entitlement. The slightest decline engenders resentment."

NEGATIVE VIEWS

Perversely, in Pakistan and Egypt, two of the four countries that topped the list of US aid recipients in 2010, the publics hold overwhelmingly unfavorable views of the United States, according to the annual global attitudes survey by the Pew Research Center, a Washington-based think tank.

For decades, Washington has seen foreign assistance as an essential instrument of foreign policy, meant in part to positively influence attitudes abroad. This works in some of

the large variety of activities that come under the label foreign assistance - for example reducing poverty, widening access to health care and education, or promoting human rights. But even US disaster relief, often prompt and efficient, does not always change attitudes, viz American emergency aid in the wake of last year's devastating floods in Pakistan.

If foreign assistance does not buy gratitude, loyalty and cooperation, does it help to influence the decision-making of friendly governments? Not necessarily. Take the example of Israel, the largest cumulative recipient of US foreign assistance since its creation in 1948. Despite the aid, the government has continued building Jewish settlements on the West Bank contrary to US wishes and contrary to international law.

So, is foreign assistance to 149 countries reflected in votes in support of US positions at the United Nations (which has 192 members)? It is not. According to a study by the conservative Heritage Foundation, about 95 percent of U.N. member states that receive US assistance voted against the United States in General Assembly votes between 2000 and 2008.

That helps explain why opinion polls consistently show that the majority of Americans are in favor of cutting foreign aid. The latest survey, in January by Gallup, showed 59 percent wanted reductions. Those results would probably look different if Americans had a clearer idea of how much of their tax money goes to helping foreign countries.

Bernd Debusmann is a Reuters columnist. The opinions expressed are his own.

Money-hungry US to hit borrowing cap

AFP, Washington

The debt-laden US government's credit card will hit its limit Monday, creating a cash crunch that puts the country's credit standing at risk as politicians battle over its long-term deficit.

Reaching the \$14.29 trillion ceiling set by Congress will not have an immediate impact on government finances, because the Treasury has found about ten weeks of wiggle-room in short-term adjustments and an unexpected April jump in tax revenues.

But with Republicans refusing to increase the ceiling without massive future spending cuts, the longer the fight over bridging the country's deficit goes on, the higher the stakes will get.

If nothing is done by about August 2, there is a chance the United States, which has always merited a top-grade credit rating, could do the unthinkable -- default on its debt payments.

Few think it will get that far, as the White House leads behind-the-scenes talks on a grand strategy on the deficit -- with Republicans insisting on spending cuts and Democrats demanding tax increases as well.

Still, some liken the fight to a game of chicken being played with the country's credit standing at stake.

"Using the debt limit as a bargaining chip is quite risky," Ben Bernanke, the chairman of the US Federal Reserve, warned politicians on Thursday. "At minimum the cost will be an increase in interest rates that will actually worsen our deficit," he said.

"The worst outcome would be one in which the financial system was again destabilized... which of course would have extremely dire consequences for the US economy."

Bond analysts -- who are closest to those who fund the debt -- called a default unthinkable.

"The severity of the outcome is why people are not believing that it will happen," said Aaron Kohli, a US Treasuries specialist at Nomura Securities. "It's the financial equivalent of a nuke going off."

"As far as (US bond) yields are concerned, they are much lower than they were a month ago. So, the market is acting as if there's no problem," said Scott Atkinson of Briefing.com.

Sony begins restoring PlayStation after security breach

REUTERS, Tokyo

Sony said it had begun restoration of its PlayStation Network games service on Sunday, almost a month after a massive security breach of the network forced the company to shut it down.

Gamers and security experts had criticized Sony for its handling of the incident, which sparked lawsuits and cast a shadow over its plans to combine the strengths of its content and hardware products via online services.

The Japanese electronics and entertainment giant apologized to customers for the outage, and said a range of new security measures had been introduced. These included an early warning system that could alert the company to any attempt to penetrate the network.

"I can't thank you enough for your patience and support during this time," Sony No. 2 Kazuo Hirai said in the news

release, which was also posted as a video message on the PlayStation Network blog.

"We are taking aggressive action at all levels to address the concerns that were raised by this incident, and are making consumer data protection a full-time, companywide commitment."

A single message from a PlayStation Network user under the name SG-1_F-302 on the blog read simply: "Thank you Sony!!!!"

But some users have said the prolonged outage has prompted them to switch to rival Microsoft's Xbox Live games service.

In what is thought to be the biggest security breach of its kind, hackers accessed personal information on 77 million PlayStation Network and Qriocity accounts, 90 percent of which are in North America and Europe, and may have stolen credit card information.

Spanish banks offer high rates, plus free iPads, TVs

AFP, Madrid

Spanish banks are offering high interest rates plus free iPads, TVs and Blu-ray recorders in a knock-down battle for customers, prompting deep concern in the government.

Madrid may now call an end to the fierce competition for fear of the damage it may wreak on the bottom lines of Spain's banks, many still mopping up the bad loans from an exploded property bubble.

An array of gifts are on offer to lure customers to transfer their accounts: an iPad at Banesto, a flat-screen TV at Caixa, a video game console at Santander and a Blu-ray player at Caja Madrid.

The battle has intensified recently but it is not new for Spain, said Carmen Ortiz, head of investor relations at Banco Popular, the third-largest listed bank.

"I have worked 20 years at the bank and I have always seen this," Ortiz said.

The authorities are concerned about astronomical rates on offer for new deposit accounts: 3.5 percent, 4.0 percent, even 4.75 percent a year. Many other European countries offer no such returns, nor gifts.

This generosity "has introduced a new element of pressure on the financial results of Spanish credit entities," still recovering from the collapse of a property bubble in 2008, said the Bank of Spain. Moreover, banks were starting to offset these higher costs with an increase in interest rate charges for loans.

Banco Popular confirmed it had "transferred" this extra cost to short-term business loans, with

Iraq to bring banks to the masses -- by mobile

AFP, Baghdad

Just a fifth of Iraqis have bank accounts, but 70 percent have mobile phones, so Baghdad is hoping to close the gap by getting people to open accounts, make payments and transfer cash -- all via mobile.

In a country that is one of the most corrupt and violent in the world, the initiative is aimed at securing Iraqis' funds, and strengthening the banking sector as higher revenues resulting from a greater number of transactions boost profits.

"It's a very important project" in terms of "increasing the capacities of private banking," Sinan al-Shabibi, the governor of the Central Bank of Iraq, told reporters at a conference on the initiative organised by the bank and USAID.

Shabibi said he hoped the project would be ready "in the coming year".

Only about 20 percent of Iraqis hold a bank account, according to experts. That figure is markedly lower than the average for developing countries, which a World Bank report released last year pegged at 28 percent among adults.

By contrast, 81 percent of adults in developed countries held bank accounts, the "Doing Business 2011" report said.

While much of Iraq's low bank account penetration has to do with a lack of confidence among Iraqis in banks, other factors are also at play.

"It can... be attributed to long period the country was at war, international sanctions, isolation from the outside world, prevailing security situations, coverage of banks in remote areas," said Indrajit Roy Choudhury, a banking expert working as a consultant for the state-owned Trade Bank of Iraq.

Choudhury added that a lack of modern banking facilities and poor financial literacy among Iraqis was also to blame.

In addition, most Iraqis are paid in cash, with many avoiding the tedious



AFP

From now, Iraqis will be able to withdraw cash from local stores with owner taking commission.

procedures of dealing with the country's bank branches, where queues are long and customers often spend a great deal of time simply in order to deposit funds that they often end up spending within a month.

Others who receive their salaries in cheques typically withdraw the full amount in cash and eschew making deposits or opening an account.

"This situation is changing," Choudhury noted, pointing out that several banks were opening branches in more of Iraq's provinces, networking those branches, and coming out with more "customer-oriented products".

Iraq is hoping to use the relative popularity of mobile telephones here, with market penetration estimated at 70 percent, to accelerate the development of the banking sector.

A 2009 report by India's National Bank for Agriculture and Rural Development notes that "lack of access to finance for...weaker sections of the society has been recognised as a serious threat to economic progress, especially in developing countries."

It added: "Moreover, prolonged and persistent deprivation of banking services to a large segment of the population leads to a decline in

investment and has the potential to fuel social tensions causing social exclusion."

According to Carl Rosenquist, an expert who is working on the Iraqi project, it is likely that younger Iraqis will be the system's guinea pigs.

"Experience shows that the take up of mobile financial services attracts initially the young and subsequently the take-up will increase up the age ladder," said Rosenquist, who has worked on similar initiatives in the Philippines, Mongolia, Jamaica and Kenya.

If the project is fully realised, all it would take for an individual to open a bank account would be a phone call.

Iraqis would be able to make transfers, pay bills, or withdraw funds from non-banking agents such as general stores, who would receive a commission in return.

It is all part of a larger project, estimated to cost between \$15-20 million, to unify Iraq's banking system.

"The biggest obstacle is regulation... The law is far behind," said Rosenquist, who complained that Iraqi banks are not required to be linked to a central payment system.

"We have a system and they are not all members. ... If they (regulators) don't mandate the use of it, then it's useless."



Activists from environmental action group Greenpeace, wearing colourful costumes symbolising the sun, wind and water ride bicycles as they launch a renewable energy campaign at Jakarta's central National Monument park yesterday. Greenpeace urged Indonesian President Susilo Bambang Yudhoyono to be bold and immediately propel the country full speed into a future powered by renewable energy.

AFP