



March 2009 / n°3

## Network News



Published by the Secretariat of the Parliamentary Network on the World Bank – 66 avenue d'Iéna 75116 Paris France – Tel +33 1 40 69 31 63  
Fax +33 1 40 69 31 34 – Mail [secretariat@pnowb.org](mailto:secretariat@pnowb.org) – Website <http://www.pnowb.org> – Cover page pictures by courtesy of WB and Assemblée Nationale

# SPECIAL CRISIS EDITION

## Features

- Page 1: Message from Hugh Bayley
- Page 2: A Bank for the World,  
by **Douglas Alexander**
- Page 3: Insights from **Louis Michel**
- Page 4: The Parliamentary Assembly  
of the Council of Europe  
and the crisis, by **Kimmo Sasi**
- Page 6: Elections calendar
- Page 7: How can we respond to the crisis,  
by **Jean-Michel Severino**
- Page 8: Africa and the crisis,  
by **Shanta Devarajan**
- Page 11: Microfinance and the crisis,  
by **CGAP**
- Page 13: Interview with **Carlos M. Jarque**
- Page 15: Euro-Latin American Links,  
opportunity amidst the crisis,  
by **Santiago Castro**
- Page 16: World Bank and the Philippines  
by **Janette L. Garin**
- Page 18: Focus on PNoWB India Group  
by **Sambasiva Rao Kavuru**
- Page 20: World Bank corner

**What's new?** The final report of the eighth Annual Conference of the Parliamentary Network on the World Bank, held in Paris from 20 to 22 November 2008, is now available at [www.pnowb.org](http://www.pnowb.org).

## Message . . .

For the second issue of our newsletter this year, and as a follow-up to our last Annual Conference, I am pleased to give several distinguished partners and members from all across the World the opportunity to share their thoughts on **the response to the global financial and economic crisis**. At a time when an extensive knowledge of world economical and financial affairs is vital to the work of all Parliamentarians I hope the newsletter will support PNoWB members to channel their voices and contribute to the formulation of development policies and programmes.

I would like to take this opportunity to thank the French Development Agency – AFD – for their offer to provide French speaking parliamentarians with a translated version of this newsletter. Such partnership will help us reach more MPs and facilitate their integration to the Network.

Lastly, I would like to announce on behalf of the Board the appointment of Mr. Jerome Evrard as Head of PNoWB's Secretariat in Paris. He has been working with the Secretariat since October 2008 and we are confident that he will now build the team we need to strengthen our organisation. With best wishes,

### Hugh Bayley

Chair, Parliamentary Network on the World Bank  
Member of the House of Commons (UK)



## **A Bank for the World: the role of the World Bank in responding to the financial crisis and building a better future**

By Douglas Alexander,  
Secretary of State for International Development (UK)

The spring meetings of the World Bank this April will take place in the shadow of a global economic downturn unlike any we have seen in generations. Developing countries, though less affected by the immediate fall-out of the credit crunch, are more vulnerable to the second wave of what has been called a 'once in a century credit tsunami'. The combined effect of a fall in remittances and demand for exports, alongside a retreat from risk by investors means that by the end of next year we could see some 90 million more people living in extreme poverty. It is clear that beneath this financial crisis lies a human crisis, and we need a coordinated global response to it.

The World Bank, through which around one-fifth of global aid to the poorest countries is channeled, is critical to this effort. The Bank has an impressive track record in tackling poverty, and played a vital role in the recent response to the global food crisis, providing some \$500 million of food and other aid in some 30 countries.

In these extraordinary times, the world's poorest people need the World Bank to take extraordinary measures. That does not mean the Bank should be reckless, or short-cut due diligence. But the Bank could do more to make more funding available, more quickly, and remove arbitrary restrictions on how much lending can be provided to one country and how much can be provided as budget support. And the Bank should also ensure that it takes greater steps than in previous crises to protect the very poorest – so that they can emerge from this downturn with their livelihoods, their assets and their health.

I welcome the leadership that Bob Zoellick has given to make sure that the Bank provides more assistance of this kind, and the UK Government is supporting the creation of a Rapid Social Response Fund to help developing countries to provide social protection for the poorest and most vulnerable, as well as a Global Poverty Alert to provide early warning of need on the ground.

We must also ensure that the immediate does not crowd out the important. The achievements last October at the annual meetings – an extra seat on the board of Executive Directors for sub-Saharan Africa and a selection process for the President of the Bank that is merit-based and transparent – show that there is real potential to build a partnership among shareholders for reform.

So at the spring meetings, I will propose that at the Annual Meetings in October Governors of the Bank have a substantive discussion on a reform package based on principles outlined at the London Summit in April, progress in the ongoing discussions at the Board and the findings of the presidency-appointed Zedillo Commission. Such a reform package should tackle three issues: voting rights; moving more Bank staff and more decision-making out of Washington; and the balance of accountability and authority between shareholders and the management of the Bank.

The United Kingdom remains a strong supporter of the World Bank, which has delivered real achievements for poor people around the world over the last 60 years. In this crisis and beyond, the world needs the Bank to once again be the guardian of the poorest.



**«People only accept change as a necessity and they only see necessity in a crisis», Jean Monnet**

By Louis Michel,  
European Commissioner for Development and Humanitarian Aid

Just like climate change, the world economic slowdown is likely to have its worst effects on those least responsible for its causes – developing countries. The full impact of the economic crisis on developing countries is only now becoming clear – foreign direct investment collapsing, remittances cut drastically and world trade contracting for the first time this century. Many fear this will wipe five or more percentage points off growth rates of economies of developing countries still badly affected by the food crisis and turbulent oil and commodity prices. Trevor Manuel already predicted last September that we would walk the second half of the journey towards the Millennium Development Goals in the shadow of three "Fs" – the intertwined crises of food, fuel and finance.

Europe has already adopted a recovery plan for its economy – helping developing countries is an important part of that plan. In the run up to the second G20 Summit in London at the beginning of April, Europe needs a pro-development approach based on solidarity, self interest and saving money in the long term. In an inter-dependent world, keeping our promises and investing in developing countries' recovery is in the end an investment in our own future. The costs of not acting are much greater. Europeans – parliamentarians and the citizens they represent - strongly support development aid even in tougher times at home. They see the benefits of tackling poverty and other global challenges like climate change.

Only by acting together can Europe put its own economies in order. Only by acting together can Europe hope to cushion our partners from the worst effects of the

downturn and to get back on the road towards the Millennium Development Goals. Now is not the time for new gimmicks – we need to focus on delivering on our existing promises, not making rash new ones. What we need is a package of measures we can take now:

- As the world's largest aid donor, we should frontload new and existing aid resources to act quickly and counter-cyclically;
- We need to scale up our infrastructure lending (from the European Investment Bank) and funding (from the EU Trust Fund). The projects need to target job creation and regional networks;
- We need to revitalise developing countries' agriculture through rapid implementation of the €1 billion EU Food Facility;
- Looking to the next Climate Change conference in Copenhagen, we need to invest in "green development" through the global climate change alliance and financing mechanism. Europe can lead the world on renewable energy and technology transfer;
- Finally, as the biggest trading partner of developing countries, Europe needs to use aid for trade to stimulate private investment and commerce.

Beyond these practical measures, we also need a paradigm shift, a culture change that seeks nothing less than the reform the governance of globalisation. Parliamentarians have a crucial role to play if we want the global financial architecture to be more accountable, accessible and amenable to development. I hope elected representatives from across the world will support with me a "Global New Deal" to be decided at the G20 Summit in London.



## The Parliamentary Assembly of the Council of Europe and the global financial and economic crisis

By Kimmo Sasi, MP, Finland  
Member of the Parliamentary Assembly of the Council of Europe (PACE)  
Member of PNoWB

On 5 May this year we celebrate the sixtieth anniversary of the Council of Europe, the first international organisation set up after the Second World War, in Strasbourg, France, designed to promote European unity in the political, social, economic, legal and human rights fields, indeed in all areas except defence. The governments of its now 47 member States are represented in the Committee of Ministers, which directs the organisation, while much of the impulse for the Council of Europe's achievements has come from the Parliamentary Assembly, made up of 630 members of the national parliaments. The Assembly meets four times a year in plenary session to hold debates on topical issues and adopt opinions, resolutions and recommendations designed to influence the national governments, parliaments, political parties and civil society. These debates are prepared on the basis of reports submitted by the Assembly's ten permanent committees.

The Assembly's Committee on Economic Affairs and Development considers all matters relating to economic co-operation, growth and development. For example, it has just presented a report on *Mobilising parliaments for Africa's development* (Rapporteur, Mr Vidar Bjørnstad, Norway), resulting in the adoption on 13 March of PACE Resolution 1656 (2009). In this Resolution, the Assembly encourages parliaments to play a greater role in development policies, giving "its full support to the efforts made both in Africa and in Europe to enhance the role of parliaments in promoting and exercising oversight over NEPAD [the New Partnership for Africa's Development] and the processes of its

implementation and in winning the support and participation of the people". The Assembly also welcomes the work of such interparliamentary institutions and networks as PNoWB in mobilising parliaments in favour of development.

Among other tasks, the Assembly's Committee on Economic Affairs and Development prepares reports for annual Assembly debates on the activities of the Organisation for Economic Cooperation and Development (OECD) and the European Bank for Reconstruction and Development (EBRD), thus enabling the Assembly to fulfil its role of parliamentary forum for such key international economic and financial institutions. The Committee's remit also covers the International Monetary Fund and the World Bank, on which it is expected to report every three years, as well as the International Trade Organization, among others.

As Committee Rapporteur, I am preparing a report on *The challenges of the financial crisis to the world economic institutions*, which I hope to present to the Assembly at its June 2009 plenary. The role and relevance of the Bretton Woods institutions, indeed their very existence, were of course already under discussion before the crisis, but in a different context, when there was very little demand for IMF financing. Now the enormous difficulties facing many countries - including several Council of Europe member States - have confirmed that not only are the IMF and the World Bank relevant, but their role is indispensable and needs to be strengthened. If they did not exist they would have to be

invented. In the course of preparing the report, I have benefited from meetings with senior officials at both institutions in Washington, D.C. in July 2008, from input by economic and financial experts at two hearings organised by the committee in November 2008 and March 2009, and from contributions by fellow parliamentarians to an urgent procedure debate organised by the Parliamentary Assembly in January this year on *The consequences of the global financial crisis*, for which I was also Rapporteur.

That debate showed clearly, and the adopted PACE Resolution 1651 (2009) reflected, members' concern about the untold social and human consequences of the crisis. These could undermine the very foundations of democracy. Therefore, the Assembly underlined the responsibility of governments "to protect citizens' social and human rights". It was essential "that the economy should be redressed as soon as possible but that in the meantime social safety networks should counterbalance the economic downturn. Those countries that have maintained sound state finances during the growth years are now better positioned to guarantee the benefits of existing social safety networks for their citizens."

The Assembly, while welcoming the G20 recommendations of 15 November 2008 to stimulate the economy, provide liquidity, strengthen financial institutions and protect savings, criticised its action plan for making "no reference to protecting the social and economic rights of citizens in a period of crisis." Finally, the Assembly listed twelve principles that should be taken into account in softening the recession and reforming the financial system, called for constant monitoring of the social impact and the human dimension of the crisis, stressed the importance of investing in human resources "as a key factor for economic, social and democratic stability", and emphasised the need for "economic solidarity, coordination

and cooperation" between states, not least vis-à-vis the developing countries.

My report on the world economic institutions, currently under preparation, discusses their evolving role in the light of the crisis, in particular that of the IMF and the World Bank, and the recent progress made under new leadership at the Bretton Woods institutions to strengthen their legitimacy and improve their governance.

The overhaul of the management and decision-making structure, lending capacity, surveillance policy and other ongoing reforms that are transforming the IMF require the support of its members, particularly those like the European countries whose relative influence is declining. While retaining their support, the Managing Director must do enough to give the Fund authority and legitimacy amongst developing countries, and to give fair weight to the fastest-growing economies. It is a difficult balancing act, but there is widespread agreement that a good start has been made. The Council of Europe member states should support the Fund's efforts to complete such meaningful reforms and to double its resources. What role for the IMF will finally emerge from the proposals made at the London Summit of 2 April 2009 remains to be seen, but it will surely be a strengthened one.

The same goes for the World Bank. The Council of Europe member states should support the Bank's recent initiatives to increase lending via the newly created Vulnerability Fund to help finance fiscal stimulus plans in countries lacking the necessary resources. They will certainly applaud recent efforts to strengthen the lending capacity of the IDA and the IFC, as well as the Bank's cooperation with the EBRD and the European Investment Bank, the IMF and the European Union to help restructure and recapitalise the banking system in Central and

Eastern European countries following the recall of liquidity by Western banks.

The current global recession can only increase the growing inequality between the more advanced and the least developed economies. The World Bank must spearhead efforts to reverse this trend.

As for effectiveness of World Bank lending, there is continuing awareness of the need to tackle the sensitive issues of corruption and transparency, as well as to ensure that project funding does not conflict with environmental protection commitments or labour standards. This is of particular concern to a primarily human rights organisation like the Council of Europe, whose member States should not endorse funding of projects that contravene its human rights standards.

Much progress has been made to reform the Bank's governance, but still more needs to be

done to ensure equitable distribution of voting rights as between the developed and the developing world.

I am convinced that institutional legitimacy is enhanced by parliamentary oversight. The Parliamentary Network on the World Bank (PNoWB) allows parliamentarians to better understand how this institution functions and to make proposals for its work. As the IMF has no such equivalent for dialogue with parliamentarians, it should be encouraged to seek more interaction with national parliaments in a manner that it deems compatible with its mandate. I am sure that the members of the PACE Committee on Economic Affairs and Development would agree that the Parliamentary Assembly's regular scrutiny of the activities of the Bretton Woods and other world economic institutions can only contribute to their democratic legitimacy.

#### Calendar of parliamentary elections of the next 6 months

<b>India</b> <b>Moldova</b> <b>Indonesia</b> <b>Ecuador</b>	<b>Yemen</b> <b>Comoros</b> <b>South Africa</b>	April 2009
<b>Malawi</b> <b>Panama</b> <b>Iceland</b>		May 2009
<b>Bulgaria</b> <b>Luxembourg</b> <b>Lebanon</b> <b>Albania</b>		June 2009
<b>Mexico</b>		July 2009
<b>Norway</b> <b>Germany</b> <b>Japan</b>		September 2009
<b>Uruguay</b> <b>Argentina</b> <b>Botswana</b> <b>Tunisia</b>		October 2009

#### Field Visit to the DRC

From 11 to 17 April, a delegation of twelve PNoWB members led by Ms. Marie Rose Nguini-Effa (MP, Cameroun) will visit the Democratic Republic of Congo. They will meet with local officials, development actors and the civil society in Kinshasa. Moreover, they will have the opportunity to monitor and assess the implementation of World Bank sponsored projects in Inga and Matadi. At the same time, the World Bank Institute will sponsor a capacity-building session for DRC parliamentarians.



## How can we respond to the crisis? Through a recovery that is global, green and shared by all

By Jean-Michel Severino,  
Director General of the *Agence Française de Développement*  
and member of the blog [www.ideespourledeveloppement.org](http://www.ideespourledeveloppement.org)

The crisis is gaining momentum. Born in the developed world, it is gradually contaminating emerging economies, and will no doubt spread to Africa. The World Bank has revised its 2009 growth forecasts for Africa down to 3.3%, compared with 5.4% in 2008. For Africa, spared from the financial wave of the crisis by its relatively low integration to global finance, the main transmission channels of the economic crisis are the volatility of commodity prices, reduced export volumes and lower migrant remittances – which represent up to 30% of some countries' GDPs. But as the crisis' scope is gradually uncovered in developed countries, there are also rising concerns that official aid and private capital flows may diminish as well – a situation that has already occurred in the past.

This would be paradoxical. Indeed Africa and Asia will probably be the only places in the world where economic growth, however weak, will continue in 2009. The pace of recovery in the developed world will depend on our capacity to sustain growth where it exists. This is why the recovery plans and stimulus packages must be conceived in *global* terms. As we work at putting our countries back on the tracks of growth, we must avoid at all costs that our partners in the South derail from their own trajectories of economic convergence. An effective solution must therefore deal with all of the symptoms of the crisis simultaneously.

The recovery plans must also be *green*. The world's scientific community is clear: the signs of climate change and of the depletion of the world's natural resources are too severe for our nations to wait any longer. All of our

actions must, from now on, take this global challenge into account. This can be done by directing a large share of stimulus packages' expenditures towards sustainable development activities, such as energy efficiency gains or the development of renewable energy – both at home and abroad. Many governments, in particular the new American administration, are making the bet of 'green' stimulus packages. If we collectively go down that road, the response to this crisis may well be the beginning of a new technological revolution. One that is vital, both economically and ecologically.

Finally, for the recovery to be sustainable, it needs to be *shared* by all. There is an urgent need to manage the social consequences of the crisis, both at home and in the poorest quarters of the world. It is therefore essential to develop mechanisms that will protect the most vulnerable populations from the immediate effects of the crisis. This will involve giving the food agenda a higher priority on our list of concerns, and strengthening those sectors such as healthcare or microfinance that serve, for the poorest of the poor, as a cushion from the disastrous effects of a sudden decline of their meager incomes.

Development stakeholders can yield quick and concrete results. But for this to happen, international action must focus on the essential: devising a global, green and social recovery. Such is the challenge of the work that will be carried out within the G20 early April. France is focusing its efforts in this direction.



## Africa and the global financial and economic crisis

By Shanta Devarajan,  
Chief economist for Africa, the World Bank

The notion that Africa will be “insulated” from the global financial and economic crisis is simply wrong. That notion was based on the fact that African financial systems did not feel the immediate impact. Most African banks keep their loans on their balance sheets; the interbank and derivatives markets are small; and, in the two largest countries (Nigeria and South Africa), foreign ownership is only 5 percent. Even here though, there are causes for concern: 40 percent of South Africa’s loans are in mortgages and house prices are beginning to fall; and domestic credit in Nigeria grew by 100 percent in 2007.

The crisis is affecting Africa through four main channels. First, African countries are already being hurt by the decline in private capital flows, which in 2007 had surged to \$53 billion, the fastest increase in any region and, for the first time, exceeding foreign aid to the continent. These flows (which were no longer concentrated in just one or two countries) were financing much-needed infrastructure and commodity-based investments in Africa. Portfolio flows have already started reversing; African stock markets fell by an average of 40 percent, with some such as Uganda’s falling by over 60 percent. Ghana and Kenya have postponed sovereign bond offerings worth over \$800 million, delaying the construction of toll-roads and gas pipelines. The Democratic Republic of Congo has lowered its expected foreign direct investment by \$1.8 billion.

Second, many African countries are facing a drastic slowdown in remittances, which had peaked at about \$20 billion a year in 2007. This is the first global crisis that started in remittance-sending countries (over 77 percent of Africa’s remittances come from the U.S.

and Western Europe). Kenya has already lowered its growth rate of remittances in 2008 from 11.1 percent to 5.4 percent; the projected growth in 2009 is zero. For countries such as Lesotho, where remittances account for 29 percent of GDP, a decline could be devastating.

The third channel is foreign aid. While most donors have pledged to maintain their levels of aid flows, they are already \$20 billion short of the commitments made in Gleneagles in 2005—commitments that were made when the global economy was much healthier. Today, fiscal pressures to stimulate the donors’ own economies are mounting. If we draw lessons from the 1990s financial crises in Norway, Sweden and Finland—when aid fell by 10, 17 and 62 percent respectively—foreign aid could fall substantially.

Fourth, the global crisis has brought about a rapid decline in commodity prices. This is a two-edged sword, as oil importers who suffered during the sharp increase in prices in 2007-8 will now benefit. In fact, the countries that suffered the biggest negative terms of trade shock in 2008 are projected to have the biggest positive shock in 2009, and vice-versa. But Africa has a large number of commodity exporting countries, almost all of whom have seen their export and fiscal revenues fall. Initially, there was some comfort in the fact that Africa’s large oil exporters—Nigeria, Angola and Gabon—used a reference of price of about \$57 a barrel when the world price was \$140, so they could use the savings to cushion the decline in export revenues. However, inasmuch as the non-oil sector in these countries is both small and highly dependent on public expenditures, there are



limits on how much it can be stimulated. Angola's GDP is expected to decline by 23 percent in nominal terms. Exporters of other commodities, such as Zambia, DRC and South Africa, are experiencing a substantial drop in export revenues and, in some cases, fiscal revenues as well. As to other exports, tourism revenues, which had already started slowing down in 2008, are likely to slow even further or decline, particularly affecting Seychelles, Cape Verde and Mauritius, where these revenues make up 47, 24 and 21 percent of GDP respectively.

Finally, several African countries entered the global financial crisis with significant macroeconomic imbalances. Ethiopia's inflation rate in July 2008 was 60 percent; Ghana's current account deficit was 19 percent, and its fiscal deficit 14 percent of GDP. South Africa's current account deficit, which was financed largely from private capital flows, was 8 percent of GDP. These countries' ability to weather the shock is much more limited, which means their economies may contract even more. South Africa, for instance, has revised its growth rate for 2009 to 1.2 percent.

The net result of all these effects is that Africa's GDP will grow at about 3.25 percent in 2009, two percentage points slower than in 2008.

The crisis could not have come at a worse time because, until 2008, African countries had been experiencing—for the first time in two decades—sustained economic growth equal to that of all developing countries (outside China and India). Thanks to sound economic policies and rising commodity prices, Africa's growth had been accelerating from 5.7 percent in 2006 to 6.1 percent in 2007 and a projected 6.4 percent in 2008. Poverty was declining and many human-development indicators—most notably the prevalence of HIV/AIDS—were improving.

Now all of this momentum may come to a grinding halt. If the crisis leads to major growth deceleration in Africa, defined as a decline in the average growth rate and level of per capita GDP over the next four years compared to the previous four-year average, the consequences could be devastating. Research shows that poverty and human development indicators deteriorate by more during growth decelerations than they improve during accelerations. Using some of the quantitative evidence, we estimate that, if Africa experiences a growth deceleration that is typical of the past, an additional 700,000 infants will die before their first birthday.

Furthermore, as mentioned earlier, Africa's recent economic growth was due at least in part to the economic reforms that policymakers undertook during the previous decade. These reforms were often painful, but they seemed to be yielding results. Now, for reasons that have nothing to do with African economic policies, growth is slowing down. There is a good chance that political support for these reforms will wane. Already we are beginning to see populist sentiments being voiced in various parts of the continent. That most of the developed countries are undertaking what look like "reverse reforms"—such as bank nationalization and deficit-increasing public spending programs—doesn't make it easier to sustain reform momentum in Africa.

In sum, we have to do everything possible to minimize the growth shortfall in Africa, and the World Bank's response is geared to do just that. We are deploying all our instruments to provide: (i) timely financial assistance for growth-preserving and poverty-reducing activities, often compensating for the loss in private capital flows; (ii) knowledge assistance to help governments navigate this unprecedented situation; and (iii) convening assistance that offers a framework for other development partners to pool their assistance to Africa.

To sequence our assistance, we have divided countries in two ways: (i) those where the impact of the crisis is immediate and where it is short-term; and (ii) countries with weak initial conditions, and those where initial conditions are somewhat stronger. We are concentrating our early efforts, especially financial support, on those countries that fall in the first category in each group. Specifically, we are preparing a \$2 billion IBRD loan to South Africa to support its power-sector reform program, and supplementing a development policy loan to Mauritius with a “deferred drawdown option” (DDO) which the country can call on as necessary. Among low-income countries, the Democratic Republic of Congo (DRC) has received a \$100 million accelerated IDA loan (as part of the Fast Track Facility) to finance infrastructure maintenance and teachers’ salaries. Benin, Togo, Mali and the Gambia have received additional financing as part of an on-going operation to help them weather the crisis. It is expected that several other countries, including Comoros, Ghana, and Zambia, will do the same. Finally, IFC’s new Infrastructure Crisis Facility is making \$300 million available to provide top-up financing for viable privately funded infrastructure projects that may be entering distress, or which are no longer able to reach financial closure.

Our knowledge assistance, which is being stepped up in all countries where we have an active policy dialogue, is focused on helping them prepare contingency plans for responding to the crisis when it hits their economies; and designing a fiscal stimulus package, where appropriate, for those that have already been hit. We are also engaged in a dialogue with civil society and other groups to explain the crisis and its impacts to, among other things, help keep the momentum for reforms going.

Finally, we are using our convening power to build coalitions for additional financial support to Africa and other developing countries, as well as to lobby for developed-country policies that promote growth in Africa. On the former, World Bank President Zoellick has proposed a “vulnerability fund,” which calls on rich countries to devote 0.7 percent of their own fiscal stimulus to a fund to support developing countries. On the latter, in addition to our efforts at reducing or eliminating protection of African exports in developed-country markets, we are undertaking analysis on possible effects on Africa of some of protectionist components of the U.S. fiscal stimulus— notably the “Buy American” clause for iron, steel and manufactured goods and the restrictions on hiring H1B visa holders in the U.S. fiscal stimulus bill.



### Shanta Devarajan online with 40 PNoWB members

As part of his tour in Europe in early March 2009, Shanta Devarajan participated in a videoconference with PNoWB members gathered in five World Bank offices and discussed current issues and trends in Africa as a result of the global financial and economic crisis. From the European office of the World Bank in Paris, Mr. Devarajan connected with Bangui (Central African Republic), Kinshasa (Democratic Republic of

Congo), Yaoundé (Cameroun) and Bamako (Mali). This was a unique opportunity to exchange with the World Bank Chief economist for Africa even if two hours were obviously not long enough to complete a passionate discussion. For those who are interested in African financial and economic developments, Shanta Devarajan is a very active blogger so we invite them to read his notes and interact with him on his blog: <https://africacan.worldbank.org/users/shanta>.



## Microfinance and the Crisis

By the Consultative Group to Assist the Poor (CGAP)

Parliamentarians have been asking a good question: how is the global crisis affecting microfinance? Those who are concerned to ensure that poor people have access to financial services to help them weather the crisis should be reassured by recent evidence provided by CGAP, a microfinance group housed at the World Bank. The global financial crisis will stress the microfinance sector and its clients, says CGAP, but the sector is fundamentally robust. Some people even argue that the sector could emerge stronger from the crisis than before.

The crisis has highlighted the role of local sources of funding – particularly poor people’s own money – to capitalize microfinance. As international funding dries up, local deposits are becoming even more critical to fuel microfinance institutions’ lending. Deposit-based institutions that do not depend on international capital markets for their funding are less exposed to the fallout in the international banking sector.

### Near-term Challenges

Low income clients are feeling the effects of the crisis. Poor households that were already reeling from the increased cost of food are now being affected by the drop in remittances from family members abroad as job losses mount in Europe and the United States. These households are sometimes struggling to repay loans to microfinance institutions, but there have been no reports of defaults.

Refinancing risk is a more immediate concern for microfinance institutions than loan defaults. And it is those institutions that depend on international capital markets for

funding that are feeling the pinch most. “Microfinance institutions have become more integrated into the mainstream financial system, and so they are more vulnerable to market shifts like credit contractions than they were in the past,” says CGAP CEO Elizabeth Littlefield.

Many microfinance institutions that borrow in foreign currency are facing both interest rate hikes and currency depreciation due to a strong U.S. dollar and Euro. Currency dislocation will challenge institutions’ ability to raise financing and match assets to short-term liabilities, which are predominantly priced in hard currencies.

In Africa, some European banks have asked microfinance institutions to prepay loans, and some international banks have been pulling out of the sector altogether. Because much of the financing of these small lenders matures in one or two years, the real extent of the squeeze may not be evident until 2010 or 2011.

This is where the support of donors and investors becomes critical. They should continue to stand by well-managed microfinance institutions that are facing liquidity shortages, says CGAP, helping them reschedule loans or, if necessary, providing emergency funding to viable institutions to help them through the crisis.

Governments and parliamentarians in developing countries can play a critical role in supporting the microfinance sector through effective regulation and supervision. But while legislators in poor countries are rightly concerned about ensuring that their citizens

have access to financial services, responses such as loan forgiveness or interest rate caps would be shortsighted says CGAP and could, in the long run, hinder poor people's access to sustainable financial services. Indeed, these types of interventions have always proven to have long term negative impact on access to finance. While policy makers should be cautious not to over-regulate, they need to continue to strengthen the supervision of large microfinance institutions that take deposits from the public. And consumer protection measures will play a critical role in all areas of finance going forward.

#### Back to Basics

The message for the microfinance institutions navigating the crisis, meanwhile, is "back to basics." We've seen phenomenal growth in microfinance in recent years," says Littlefield. "While the slowdown will have costs for

individuals and could curb widespread expansion of access in the short term, in the long term the microfinance sector could emerge from the crisis stronger. Slower growth, more attention to efficiency gains to cut costs, a greater emphasis on communications and caring for customers, and even consolidation of weaker institutions into stronger ones would all be good outcomes that would strengthen and shore up microfinance in the long term."

In particular, the global crisis may accelerate long overdue consumer protection measures that will shape the future of responsible lending. Most important, the crisis has revealed the value of deposit-taking by microfinance institutions as deposits provide a stable funding source and at the same time provide much needed deposit services for poor households.



If you would like expert microfinance advice on how to help your country respond to the crisis, please contact: [cgap@worldbank.org](mailto:cgap@worldbank.org)

See CGAP's latest publications on microfinance and the financial crisis:  
<http://www.cgap.org/p/site/c/template.rc/1.26.9911/>

CGAP is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions and offers advisory services to governments, microfinance providers, donors, and investors. For more information on CGAP and its services, please visit [www.cgap.org](http://www.cgap.org)



**Interview with Carlos M. Jarque,  
Representative in Europe, Inter-American Development Bank**

***PNoWB: Could you briefly introduce the Inter-American Development Bank?***

Carlos M. Jarque: The IDB is a main source of multilateral financing and expertise for sustainable economic, social and institutional development in Latin America and the Caribbean. The IDB provides solutions to development challenges in 26 countries of Latin America and the Caribbean, partnering with governments, companies and civil society organizations. The IDB lends money and provides grants. It also offers research, advice and technical assistance to improve key areas like education, poverty reduction and agriculture. Our clients range from central governments to city authorities and small businesses.

The IDB partners with countries to combat poverty and promote social equity through programs tailored to local conditions. Working with governments as well as with the private sector, the Bank seeks to achieve sustainable economic growth, increase competitiveness, promote social equity, modernize public institutions, and foster free trade and regional integration.

***What are the objectives of the creation of a Euro-Latin-American Network of Parliamentarians for Development Effectiveness?***

The Office in Europe of the Inter American Development Bank and PRODEV have taken the initiative of creating a Euro-Latin-American Network of Parliamentarians for

Development Effectiveness. The purpose of this network is to contribute to strengthening parliaments in Latin America as actors for development, within the perspective of reinforcing strategic relations between Europe and Latin America.

Objectives of Interamerican Parliamentary forums are the exchange of information and good practices, the comparing of good practices and the creation of networks of legislators. Drawing on this experience, Latin American parliaments could heavily benefit from a European-Latin-American Parliamentary Network for Development Effectiveness to exchange of practices, bringing legislators of both regions in contact. Such a network will allow optimizing the impact of donor countries and the use of their resources. It will also contribute to a more effective use of national and local government budgets driving them towards development results.

From the belief that parliaments are essential to democracy and development, the purpose of this network is to contribute to strengthening parliaments in Latin America, within the perspective of reinforcing strategic relations between Europe and Latin America. The activities that will be organized in the framework of this initiative will be part of the 50<sup>th</sup> anniversary of the IDB.

Congress has an important role to play in the Region where most of the countries have strong presidential regimes, demanding consistency and coherence in terms of

planning and budget. In order to contribute to the strengthening of parliamentary institutions, and improving the overall quality of democracy, parliaments could strongly benefit from working exchanges between parliamentarians from different countries and continents. The exchange of information and good practices by the primary actors of parliaments – legislators and their staff – could even have more impact than institutional reforms supported by international organizations and recommended by academics.

***Do you already have a calendar of activities for 2009?***

We plan to launch the network during the *Encuentro Latino Europeo*, which will be held in The Hague on May 27-28<sup>th</sup>, organized by the IDB in collaboration with Socires and other development organizations of the Netherlands.

The Euro-Latin-American Network of Parliamentarians for Development will have four main activities in 2009:

- The organization of a workshop in Europe during the spring to raise funds to finance the network and raise awareness about the importance of strengthening parliaments for economic and social development, and intensifying parliamentary cooperation between Europe and Latin America.
- The launch of the Euro-Latin-American Network of Parliamentarians for Development Effectiveness and the organization of a parliamentary forum on May 27<sup>th</sup> and 28<sup>th</sup> in the Netherlands, based on the developed methodology of the Inter-American Parliamentarian Forum, sponsored by IDB's PRODEV program. This forum aims at bringing together twenty legislators from Latin American countries and twenty legislators from European countries, to incentivize exchange of information and good practices;
- The next meeting of the Inter-American Parliamentarian Forum on Management for

Development Results in Santo Domingo (Dominican Republic) in June, in which several European parliamentarians will participate, along with parliamentarians of Latin American countries;

- The organization of a conference on Parliamentary Reform in Latin America, in collaboration with the REDGOB network, on December 10<sup>th</sup> and 11<sup>th</sup> in Salamanca. In this conference, both policy-makers and academicians will participate. This will be one of the main activities within the Spanish Presidency of the EU.

***What kind of relationships do you expect with PNoWB and existing networks of parliamentarians?***

The Parliamentary Network on the World Bank has several years of experience in the field of interparliamentary cooperation. We would like to generate a synergy between PNoWB and this new initiative taken by the IDB. The approach of the Euro-Latin-American Network of Parliamentarians for Development Effectiveness complementary with PNoWB but has very specific goals. It focuses mainly on exchanges between European and Latin American parliamentarians, and has a thematic-technical focus: development effectiveness. For instance, topics to be discussed include institutional relations between parliaments and civil society, and how parliaments can participate in translating the Millennium Development Goals into effective development policies.

The organization of bi-continental forums of legislators, the development of a permanent platform which would operate as a network of European and Latin American parliamentarians, is likely to contribute to improve legislative institutions in the process of development. As a "collateral" effect, such a forum might also help to reinforce the interest of European legislators for Latin America again, and put "Latin America" higher on the priority in the development

cooperation agenda of European countries. Europe in general needs better understanding of the big questions related to the development of the Latin American continent, concerning both its institutional and socio-economic dimension.

***Who should be the IDB point of contact for PNoWB members?***

For further information about this initiative you may contact Fernando Carrillo

(fernandoca@iadb.org) and Dennis Petri (dennisp@iadb.org) at the Office in Europe of the IDB. We are at your disposal if you have any question.

It is my pleasure to invite all European and Latin American parliamentarians that are interested to participate in the launch of the network, where you can give your views on the specific needs of interparliamentary cooperation and development effectiveness.



**Euro–Latin American Links, opportunity amidst the crisis**

By Santiago Castro, MP, Columbia  
PNoWB Treasurer and Board member

There has been no better time to readdress relations between Latin American countries (LAC) and Europe. Long seen as the United States’ backyard, LACs in fact share a substantial European heritage, cemented lately by a flurry of commerce, investment and cultural exchanges between the two regions. In fact, in some countries, it has been Spain or the United Kingdom the main investor, rather than the northern giant.

But what has captured the world’s attention is the intensity of the ideological debate raging within LAC countries. A counter-current alternative to the free-market democracy model has been presented in aggressive terms by the governments of Venezuela, Bolivia, and Ecuador with high popular support, while similar approaches in Nicaragua and Argentina turned out to be very unpopular. However, the most successful economies belong to the left-of center democracies of Brazil and Chile, while the most recent star point to the center-right government of Colombia, closely aligned with the United States and wildly popular. It is

clear then that there is no simple way to define political or economic trends in Latin America.

Nevertheless, it is undeniable that the United States no longer dictates terms in its relations with its southern neighbors and this presents a historical opportunity for Europe. Just to give one example, Europe has proceeded to negotiate free-trade agreements with LACs at the same time that the U.S. Congress is blocking them. More to the point, the recent economic crisis has given impetus to broaden markets and it is the Old Continent rather than the collapsing Asian economies that present the best opportunities in the short term.

But in the end, it is up to the Europeans to realize their chances, and look beyond their north Atlantic ties and their African obsession, and see a Latin America that has faced the crisis better than the rest of the world and is looking for new partners.



## The World Bank and the Philippines

By Janette Loreto Garin, MP, the Philippines  
PNoWB Board member

A World Bank declaration in January, which saw the Bank permanently bar seven major construction firms and one individual from all WB-funded projects, has created serious shock waves in my country.

After an in-house 'in-depth inquiry' the WB ruled the debarment of seven firms and one individual for engaging in collusive practices. Two of the debarments are permanent - the strongest possible sanction. This ruling will permanently prohibit these companies from any and all WB-funded projects and lead to the immediate stoppage of some \$33 million (set-to-be released from the \$150 million soft loan). It also halted the multi-million national road improvement and road maintenance project for the Philippines which was nearing its completion. The project has so far seen 382 kilometres of new road constructed from the 528 kilometre-target and 975 out of 1000 kilometers of road maintained or improved.

Where my country and its policies are coming from, we cannot afford to shake our somehow stable and secured footing before the international community. Currently developing, and still struggling to keep that stable footing, our country was rocked by extensive coverage in the World's press of corruption and major cartel.

The World Bank - perceived as a vital source of financial and technical assistance to developing countries worldwide, the Philippines included - has been linked synonymously to reconstruction, development, progress and international collaboration.

For years the Philippines have played its collaborative role as a team-player and all for

the glory of sustainable globalisation and responsive progress. We have become a "creditworthy" WB member-country enjoying low-interest loans, interest-free credits and grants. The WB projects were, and are, undeniably integral to the Filipino nation's desire for progress.

Yet where did the Philippines go wrong? The issue has created a huge debate and once again, shook the very core of Philippine governance and the Philippine Government.

Affected contractors – major players in the Philippine construction industry – state they are the victims because there has been no due process. When investigated by the Philippine Congress, Philippine-based WB officials did not appear, maintaining a position that they are there to protect resources of the Bank and that legislative loopholes are an internal concern to the country of issue. This resulted in a word war with legislators leading to the issuance of a subpoena to the WB country director. Still, the position the Bank takes is that they cannot release the investigative report.

Following allegations that they covered up the WB-report from the public the Finance minister and the nation's Ombudsman were called to hand in their resignation.

Leaks of portions of the report dragged former powerful politicians into the debate accusing them of meddling with WB funded projects. Everybody linked in the report denied involvement and stressed the fact 'that there was no actual investigation.'

Media clamor was loudest for disclosure of official copies of all WB reports, including



details of involvement. This eventually placed in question the sad fact that most loans incurred by developing countries - the Philippines included- do not pass legislative scrutiny. Hence, the limitation of information to a few aggravates the present dilemma and difficulty of Congress in exercising its oversight powers. This system has a most significant effect on transparency and accountability of development funds.

There is a clear and present need for check and balance, for transparency, for equal workability from and to WB and member-countries. Reforms are necessary and immediate too, on WB policies and member-country policies. The Executive and the Legislative branches of governments must be involved in this check and balance. There must be links and networks which allow for proper consultation, transparency, vital project prioritisation and accountability.

The work, after all, is not done. The Philippines is certainly not even halfway to realise its target mission and vision on poverty alleviation. On an improved and stable investment climate, on better public service, on reduction of vulnerabilities in its economy and governance, on financial management, on disaster-risk management... there is still a long journey ahead.

Even with millions in WB assistance, we as a nation are still not done with our job. So we need oversight. That is how we should think globally and translate that into actions and steps that we must take locally. Congresses and Parliaments in developing countries interacting with those from the developed and donor countries – in effect making aid truly responsive and effective.



### **Philippines: Government and World Bank Wrap Up Consultations on New Country Assistance Strategy**

The World Bank Group announced on March 20 that it had completed consultations with the representatives of the Philippine Government on the World Bank Group's emerging Country Assistance Strategy (CAS), the framework that guides the Bank's program of assistance for the Philippines. The proposed new CAS is scheduled to be discussed by the Bank's Board of Executive Directors in end April 2009, and will cover the period July 2009 to June 2012.

Anchored in the Government's Medium-Term Philippine Development Plan (MTPDP) 2004-2010, the proposed CAS—a joint assistance strategy of the World Bank, International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) — puts greater emphasis on poverty alleviation and

good governance. Its overall goal is to support the Government in achieving inclusive growth by pursuing the following strategic objectives: stable macro economy; improved investment climate; better public service delivery; and reduced vulnerabilities. A fifth and cross-cutting objective, good governance, will involve further operationalization of governance in all Bank-supported activities.

The World Bank Group will operationalize its strategy through engagements at the national, local, and private sector levels. The proposed indicative World Bank financing program for the Philippines is in the range of US\$700 million-US\$1billion per year for the period July 2009 to June 2012, together with a robust program of analytical and advisory activities.



## Focus on PNoWB Chapter in India

By Sambasiva Rao Kavuru, MP, India  
President of PNoWB India Group

PNoWB India Group comprises of 50 members of Parliament, out of which nearly 10 members attended the Paris Annual Conference of PNoWB in 2008. We have a 12-member Executive Committee. The Group has a constitution prepared by a legal firm in consultation with the World Bank India office and PNoWB Secretariat in Paris. It was registered as NGO under the laws of India at Delhi and has its present office in New Delhi (hosted by its president), which is about 0.25 km away from the World Bank India office.

The level of interest of members of Parliament in the activities of PNoWB is high. The World Bank has been taking serious interest in the Development Activities initiated by the Government of India. As a result, the level of inquisitiveness and desire to associate with the World Bank in giving shape to the development agenda is becoming helpful to the members of Parliament who are required to respond to the ever growing demands for economic development & growth from their constituencies. PNoWB India Group has frequent dialogues with the Director of the World Bank in India. The External Affairs office of the World Bank in India has thereafter often been in touch with the president & other members, i.e., Mr. Suresh Prabhu who was a member of PNoWB Global Board.

The national elections will bring a new elected Parliament in June 2009. We have scheduled a meeting in July 2009 for PNoWB Executive Committee. Our brochures and membership application forms will be circulated to new members of Parliament. The activities for the reconstituted PNoWB India Group would be finalized at the July meeting.

There are some locations in India where poverty levels are greater than in Sub-Saharan Africa. The economic development in these regions requires the country to provide them with significant levels of Developmental assistance (modern infrastructure, education, healthcare, housing, urban/rural water supply, irrigation & power etc). The Members of Economic/Finance Committees of the Parliament take great interest in having dialogue with World Bank officials on these issues and want to familiarize them with the inputs from their constituencies. On an average, one MP represents two million people. We have 543 MPs for a population of 1.11 billion.

So far all the expenses of PNoWB India Group have been paid through sponsorship by members and partners through personal contributions. No funds have been accessed through the World Bank office in Delhi or from donations/grants which were in past discussed with various organizations/agencies both local as well as international. No membership fees were ever collected and no account was therefore required to be kept. We have never received any financial support/contribution from the World Bank or from the PNoWB Secretariat in Paris.

India is one of the biggest client/customer of the World Bank. Every member of Parliament is aware of the Development Assistance that is provided by the World Bank. Those members of Parliament who wish to associate themselves with participation in dialogue with the World Bank in their Country Assistance Strategy (CAS) become keenly interested in

PNoWB activities. There has been repeated demand for more information from the members of Parliament about the development projects being funded by the World Bank. The members of provincial legislatures also keep on pressing us to give them the opportunity to be heard on the projects being supported by World Bank in their constituencies (particularly when the political parties of the members of Parliament covering those areas are rival parties). There is

also a strong demand from Lawyers Associations, Activists, N.G.Os, social service/environmental groups, civil society workers, consumer movement activists to grant them observer status.

We had realized that there was a need to set up a Chapter Secretariat, which has so far been funded by the President. These matters would be taken up in our next meeting in July 2009.



### **World Bank's current Country Strategy for India is closely aligned with India's own development priorities**

The Bank's strategy is guided by the priorities of the Government of India as expressed in the 11th Five-Year Plan, and by a series of consultations with a broad range of stakeholders, including members of the government and civil society. The strategy envisages total proposed lending of US\$14 billion for 2009 - 2012. US\$9.6 billion of this is from the International Bank for Reconstruction and Development (IBRD) and US\$4.4 billion from the International Development Association (IDA).

When presenting the new strategy in December 2008, World Bank Economic Adviser Giovanna Prennushi underlined that addressing India's vast infrastructure deficits is critical to boosting growth and bridging the gap between rich and poor. No Indian city provides water 24/24, only half the population has access to safe drinking water, and 40% of India's 600,000 villages are not connected to a road. In the seven low-income states (Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan, and Uttar Pradesh, home to nearly 60 percent of the 300 million citizens leaving below the poverty line) the Bank Group's focus is on poverty reduction and helping these states achieve the Millennium Development Goals.

Support to middle-income states will be on two fronts: fighting poverty in the lagging areas of these states, and addressing the challenges emerging from rapid growth, compounded now by the global economic downturn. The new strategy will support some of India's middle-income states like Andhra Pradesh, Karnataka, Punjab, Tamil Nadu, Haryana, Gujarat, and Maharashtra. The International Finance Corporation (IFC), the World Bank's private sector affiliate, has an extensive program for addressing poverty in India through investment and advisory work on economic inclusion, regional integration, rural development and India's low income states.

The Bank's efforts in India are lead by Roberto Zagha, the World Bank's new Country Director for India, appointed in January. Roberto Zagha was previously Senior Advisor to the World Bank's Vice-President in the Poverty Reduction and Economic Management Unit, and was most recently in India for the release of The Growth Report, serving as the Secretary of the Independent Commission on Growth and Development.



## World Bank Corner

### Update on World Bank Programmes and facilities to combat the global economic and financial crisis

#### **Building on reforms already underway, the World Bank Group has moved swiftly to expand and speed up lending, assistance, and advice to developing countries.**

- The World Bank Group has launched a \$1.2 billion Global Food Response Program (GFRP) to speed assistance to the neediest countries. In Fiscal Year 08/09 GFRP loans were processed on average in under two months.

- The World Bank Group set up a new facility to speed \$2 billion to help the poorest countries by expediting approval processes for money from the \$42 billion IDA 15 fund. Money will be used for safety nets, infrastructure, education and health. In February 2009, the Bank approved \$35 million for Armenia and \$100 million for the Democratic Republic of Congo.

- IBRD, the World Bank's lending arm for middle-income countries, could make new commitments of up to \$100 billion over the next three years, the Bank announced in 2008. This year (2009) lending could almost triple to more than \$35 billion compared to \$13.5 billion last year to meet additional demand from our developing country partners. In December 2008, the Bank approved \$500 million for structural reforms in Ukraine to help mitigate the impact of the financial crisis. The Bank also agreed to help India with \$3 billion in increased investment, as part of the Bank's new country strategy. In March 2009, the Bank approved a \$2 billion standby loan for Indonesia, uniquely designed as insurance for the country should the global financial crisis worsen.

- The World Bank Group will provide support of about €7.5 billion to help the Eastern Europe banking sector and to fund lending to businesses hit by the global economic crisis. The financial support will include equity and debt finance, credit lines, and political risk insurance.

- IBRD intends to increase lending in Europe and Central Asia up to €16 billion in 2009-10. From that up to €3.5 billion is envisaged for addressing banking sector issues in emerging Europe.

- The Multilateral Investment Guarantee Agency (MIGA) will provide political risk insurance capacity of up to €2 billion for bank lending, subject to Board approval.

- IFC, the private sector arm of the World Bank group, is expected to contribute up to €2 billion through its crisis response initiatives in sectors including banking, infrastructure and trade as well as through its traditional investment and advisory services.

#### **Through IFC, the World Bank Group is ramping up support to the private sector through the launch or expansion of five initiatives, designed to leverage donor and private sector funds.**

- Ensure trade flows: IFC is doubling its Global Trade Finance Program to \$3 billion over three years and is mobilizing funds from other resources. Japan has pledged \$1 billion.

- Bolster distressed banking systems: Launching a global equity fund to recapitalize distressed banks in smaller emerging markets,

where IFC plans to invest \$1 billion over three years and Japan plans to invest \$2 billion.

- Keep infrastructure projects on track: IFC expects over three years to invest at least \$300 million and mobilize at least \$1.5 billion from other sources to provide roll-over financing and help recapitalize viable infrastructure projects—roads, ports, and transmission lines—facing financial distress through a new Infrastructure Crisis Facility. Germany has pledged €100 million for the facility.

- Shift advisory support services: Refocusing existing advisory services programs to help clients cope with the crisis. IFC estimates a financing need of at least \$40 million over three years.

- Support microfinance institutions: A new \$500 million Microfinance Enhancement Facility will provide refinancing to more than 100 microfinance institutions in up to 40 of the world's poorest countries, reaching up to 60 million low-income borrowers.

### **Vulnerability Fund**

The Bank is calling for developed countries to pledge 0.7 percent of their stimulus packages, or as much as they can in additional money, to a global vulnerability fund to help developing countries, which can't afford bailouts and deficits. This vulnerability fund is not a new entity but a target for developed countries to scale up help to existing development actors (national aid agencies; UN agencies, multilateral development banks; non-

governmental organizations, etc). The fund would focus on these three priorities: safety net programs; investments in infrastructure; support for small and medium-sized enterprises.

### **Partnerships**

The EBRD, the EIB Group and the World Bank Group — the largest multilateral investors and lenders in Eastern Europe—have pledged to provide up to €24.5 billion (\$31 billion) to support the banking sectors in Eastern Europe and to fund lending to businesses hit by the global economic crisis.

The World Bank Group is collaborating with the IMF and others to help country governments and the private sector through lending, equity investments, innovative tools, and safety net programs. A policy package for Hungary is underway, where the World Bank is ready to provide €1 billion as part of a program supported by the European Union and the IMF. The Bank also welcomed Latvia's agreement with the IMF on a policy package to address economic and financial vulnerabilities.

The World Bank Group believes that the G7 is not adequate and is proposing a new broader steering group to address major economic challenges.

The World Bank Group also seeks to strengthen collaboration among multilateral development institutions to support long-term economic growth that is consistent with the Millennium Development Goals.

### **Recent World Bank reports:**

#### **Swimming against the tide, how developing countries cope with the global crisis**

**The sharp global contraction is affecting both advanced and developing countries.** Global industrial production declined by 20 percent in the fourth quarter of 2008, as high income

and developing country activity plunged by 23 and 15 percent, respectively. Particularly hard hit have been countries in Eastern Europe and Central Asia and producers of capital goods.

Global GDP will decline this year for the first time since World War II, with growth at least 5 percentage points below potential. World trade is on track to register its largest decline in 80 years, with the sharpest losses in East Asia, reflecting a combination of falling volumes, price declines, and currency depreciation.

**Financial conditions facing developing countries have deteriorated sharply.** The World Bank estimates that developing countries face a financing gap of \$270-\$700 billion depending on the severity of the economic and financial crisis and the strength and timing of policy responses. Even at the lower end of this range, existing resources of international financial institutions would appear inadequate to meet financing needs this year. Should a more pessimistic outcome occur, unmet financing needs will be enormous.

**The financial crisis will have long-term implications for developing countries.** Sovereign debt issuance by high-income countries is set to increase dramatically, crowding out many developing country issuers (private and public). Many institutions that have provided financial intermediation for developing country clients have virtually disappeared. Developing countries are likely to face higher spreads, and lower capital flows than over the past 7-8 years, leading to weaker investment and slower growth in the future.

**The challenge facing developing countries is how, with fewer resources, to pursue policies**

#### **Other recent World Bank reports**

##### **Growth figures adjusted**

While China's real economy has been hit hard by the global crisis, it is still holding up, according to the World Bank's latest China Quarterly Update released in March. The

**that can protect or expand critical expenditures, including on social safety nets, human development and critical infrastructure.** This will be especially difficult for LICs: the slowdown in growth will likely deepen the degree of deprivation of the existing poor, since large numbers of people are clustered just above the poverty line and particularly vulnerable to economic volatility and temporary slowdowns. Many of the most affected LICs are heavily dependent on official concessional flows, which will be under pressure in donor countries facing their own fiscal challenges.

**There is a therefore a strong need to expand assistance to LICs to protect critical expenditures and prevent an erosion of progress in reducing poverty.** Attention must be directed to protecting the poor through targeted social spending, including expanded safety nets, and to maintaining and expanding the infrastructure assets that will be critical to restoring growth following the crisis. A concerted effort is also needed to support the private sector, especially SMEs, which are essential to a resumption of growth and job creation in developing countries. Creation of a global Vulnerability Fund, financed with a modest portion of advanced country stimulus packages, could go a long way to providing the resources necessary for these efforts.

The full report, prepared for the G20 meeting Finance Ministers' meeting on March 13 and 14 can be found here:  
<http://siteresources.worldbank.org/NEWS/Resources/swimmingagainstthetide-march2009.pdf>

Update, a regular assessment of the Chinese economy, finds that China's banks have been largely unscathed by the international financial turmoil and that the economy still has plenty of space to implement forceful

stimulus measures. However, as the global crisis has intensified, China's exports have been hit badly, affecting market-based investment and sentiment, notably in the manufacturing sector. In this light, the World Bank is adjusting its projection for China's GDP growth downward to 6.5 percent in 2009. This also follows the recent downgrading of the World Bank's projections for global GDP growth and imports in 2009.

Download the full report at  
<http://go.worldbank.org/QR685IVMPO>

### **Rise of protectionist measures**

Since G-20 leaders signed a pledge in November 2008 to avoid protectionist measures, several countries, including 17 of the G-20, have implemented 47 measures that restrict trade at the expense of other countries, a World Bank study published in March shows. Since the beginning of the financial crisis, officials have proposed and/or implemented roughly 78 trade measures, according to the World Bank's monitoring list of trade and trade-related measures. Of these, 66 involved trade restrictions, and 47 trade-restricting measures eventually took effect. The effects of these measures are likely minor relative to the size of unaffected markets but they have a significant negative effect on particular exporters shut out of markets.

Download the full report at  
[http://siteresources.worldbank.org/NEWS/Resources/Trade\\_Note\\_37.pdf](http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf)

### **Vulnerability for women and children**

A World Bank study on the vulnerability of women and children, published in March, showed that the current global financial crisis, combined with recent food price increases, will have serious consequences for women in poor countries and their children. Consequences include higher infant mortality,

more girls being pulled out of school and reduced women's income.

New World Bank estimates identify 33 developing countries where women and girls in poor households are particularly vulnerable to the effects of the global economic and food crises. Fifteen of these, mostly in Sub-Saharan Africa, are likely to see both low female schooling and high infant and child deaths as well as slowing economic growth, making women's and girls' situation especially precarious.

Download the full report at  
<http://www.worldbank.org/html/extdr/financialcrisis/pdf/Women-Children-Vulnerability-March09.pdf>

### **Vulnerable countries brief**

In the vulnerable countries brief, released in February, the World Bank Group argues that the spreading global economic crisis is trapping up to 53 million more people in poverty in developing countries and, with child mortality rates set to soar, poses a serious threat to achieving internationally agreed targets to overcome poverty. In the brief, it explains which developing countries are hardest hit.

Download the brief at  
<http://go.worldbank.org/WJ3PU77R20>

### **Implications of the financial crisis for macro and financial policies**

In January, a research paper on the implications of the financial crisis for macro and financial policies was published, drawing on a large body of research evidence and country experiences.

Download the research paper at  
[http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/01/05/000158349\\_20090105103551/Rendered/PDF/WPS4807.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2009/01/05/000158349_20090105103551/Rendered/PDF/WPS4807.pdf)

## Other

### Voice and participation:

#### High Level Commission and reforms

The World Bank announced in March the membership of an independent, high-level commission tasked with making recommendations on how the institution is governed so that it can better fulfill its mission of overcoming global poverty. The Commission was created by World Bank Group President, Robert B. Zoellick in October 2008 to focus on the modernization of World Bank Group governance so the World Bank Group can operate more dynamically, effectively, efficiently, and legitimately in a transformed global political economy. It will report back at the World Bank Group's October 2009 Annual Meetings. The 12 members of the Commission, chaired by former Mexican President Ernesto Zedillo, have all held or hold senior positions at an international level and are drawn from developed and developing countries.

Recently, the World Bank's Board of Governors approved a first phase of reforms to increase the influence of developing countries within the World Bank Group, including adding a seat for Sub-Saharan Africa to allow developing countries a majority of seats on the Executive Board, and expanding voting and capital shares. Since Zoellick

became World Bank Group President, 7 of 9 of his senior appointments have been from developing countries.

For more information, see: <http://go.worldbank.org/VZYLO6ICK0>

#### The 2009 Spring Meetings of the World Bank and the International Monetary Fund

The 2009 Spring Meetings of the World Bank and the International Monetary Fund (IMF) are taking place on April 25-26, in Washington D.C. The website below will take you to the schedule of events, and the agendas of the Development Committee of the World Bank and the IMF, and the International Monetary and Financial Committee of the IMF will be made available through this website closer to the meetings.

<http://www.imf.org/external/spring/2009/index.htm>

For more information about the Development Committee, the International Monetary and Financial Committee and other committees, groups and clubs whose activities are of high relevance to the work of the IMF, please refer to the IMF factsheet at this website: <http://www.imf.org/external/np/exr/facts/groups.htm#IC>

## A PNoWB publication...



Send your articles for Network News n°4 / June issue to [secretariat@pnowb.org](mailto:secretariat@pnowb.org)

Available in French with the support of

