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– Table of Contents –

Chairman’s Foreword: Excessive Income Inequality – Causes, Consequences, and Macroeconomics Policies to Reduce Inequality

Jeremy Lefroy, PN Chairman, Member of the UK Parliament (pg. 2-4)

The Challenges Involved in Protection and Preservation of Tangible and Intangible Cultural Heritage

Alain Destexhe, PN Vice Chair, Member of the Belgian Parliament (pg. 5-10)

Parliaments Must Up Their Game on Risk Management

Malini Mehra, CEO of Globe International (pg. 11-16)

Five Trends in the Fight Against Extreme Poverty in Latin America and the Caribbean

The World Bank Group (pg. 17-21)

How to Manage the Commodity Rollercoaster

Vitor Gaspar, Director of the Fiscal Affairs Department of IMF (pg. 22-27)

Interview with Senator Eve Bazaiba Masudi

Eve Bazaiba Masudi, Member of the Parliament of the Republic of Congo (pg. 28-30)

Getting Ready for the Next Wave: Towards a More Dynamic and Inclusive Latin America

Mario Pezzini, Director of the OECD Development Centre, and Angel Melguizo, Head of the Latin America and Caribbean Unit at the OECD Development Centre (pg. 31-34)

Latin America’s Future: Rebounding Growth through LAC’s Champion

Parliamentary Network Secretariat (pg. 35-39)

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Chairman's Foreword

Excessive Income Inequality: Causes, Consequences, and Macroeconomics Policies to Reduce Inequality

Jeremy Lefroy, PN Chairman, Member of the UK Parliament

Global inequality is falling, in large measure due to the strong increases in GDP in the world's two most populous countries, China and India, but excessive income inequality within countries is rising. That was the message of Krishna Srinivasan, Deputy Director for the Western Hemisphere at the IMF during a seminar held in Lima to coincide with the Annual Meetings of the World Bank & IMF.

Inequality within countries hampers sustained growth as a result of lower investment in health, education, cash transfers and other social services.

Mr Srinivasan identified drivers of inequality such as skill based technical change, the globalisation of finance and trade, and the decreasing bargaining power of workforces. Those who can acquire the skills which the global economy depends on are in demand around the world, while lower-skilled workers find themselves replaceable and with less protection than twenty or thirty years ago.

But whereas in the past, this inequality was seen as somehow irrelevant to growth - or at the most, an unfortunate consequence of it - the IMF now sees clear evidence that inequality hampers growth. That is a change whose significance cannot be underestimated. Indeed, along with the World Bank's commitment to end extreme poverty and boost shared prosperity, it is the most encouraging development I have seen in my years of following the work of the Bretton Woods institutions.

The IMF sees three baleful consequences of inequality.

Firstly, it is harmful for the pace and sustainability of growth. Without a healthy and educated population - and free or low cost universal education and healthcare are a strong measure of equality - growth will be lower and less sustainable.

That may sound like a statement of the obvious. But if it were, we would not have many countries, by no means all of them among the poorest, in which millions of children do not go to school and where maternal and child mortality remains a scourge.

Secondly, severe inequality has a negative impact on economic and social stability. This again does not apply only to low income countries. More equal societies tend to be more stable and that will tend to boost growth.

Thirdly, inequality delays and lessens the poverty-reducing impact of growth. If most of the proceeds of growth go to a few, naturally those on low and middle incomes see little of it. Not only that, those on low incomes will tend to spend or invest any increase in their income locally, on goods and services, including health and education. By contrast, it is much more likely that high earners will put increases into imported goods or overseas assets. 'Gush up' economics is preferable to 'trickle down.'

Mr Srinivasan outlined several ways in which countries can actively reduce inequality while improving prospects for growth.

Broadening the tax base, especially through progressive income taxes, will generate the money needed to support universal health and education coverage. Some middle income countries collect barely 10pc of GDP in revenue. Even this low level of collection is disproportionately borne by the poor and middle classes as well as small businesses. The World Bank, the IMF and several bilateral agencies are increasing their technical support for national revenue authorities to counter this.

Social spending - on cash transfers, health and education - is a very powerful way of reducing inequality. If you strip most health and education costs out of low income families' budgets and add to that a cash transfer, so much more is possible. Bare subsistence farming becomes much more productive as the farmer has cash to invest rather than running out several months before the planting season and having to borrow at high rates simply to buy seeds and fertilizer.

Energy subsidies are typically unequal. They favour those who use a lot of energy and consume large chunks the budget. Cutting energy subsidies and using the savings to boost social spending is an obvious though politically difficult move. But with oil prices low, now is the time to act.

Other measures which can be taken are

- ensuring easier access to financial services;
- introducing or raising property taxes, which tend to reduce extreme inequality;
- improve education and training; and
- increasing the efficiency of the labour market.

Above all, working for gender equality is a thread which must run through every other policy.

Mr Srinivasan warned that action is perhaps all the more urgent because the commodity boom of the past decade is coming to an end, except perhaps for some agricultural products such as cocoa. This boom increased government receipts, made it easier to start or expand cash transfer programmes, and to increase spending on health and education. There is already evidence of the beginning of a reversal of some of the gains made in recent years in reducing inequality.

In her foreword to 'Inequality and Fiscal Policy,' the IMF's Managing Director Christine Lagarde writes: "Excessive income inequality in many parts of the world is one of the defining issues of our time. Not only is extreme income inequality a moral and political issue, it had important macro- economic implications. There is growing evidence that excessive income inequality is detrimental to macroeconomic stability and economic growth."

I welcome this renewed emphasis by the IMF on tackling such excessive income inequality. I look forward to seeing the action the Fund takes to support national governments to do this.

The Challenges Involved in Protection and Preservation of Tangible and Intangible Cultural Heritage

Alain Destexhe, PN Vice Chair, Member of the Belgian Parliament

Background

Cultural heritage has been given a legalistic framework through the foundational [1954 Hague Convention](#) and subsequent conventions in [1970](#), [1972](#), [2001](#), and [2003](#), which attempted to define cultural heritage, prohibit the illicit exchange of cultural property, establish global cultural heritage sites, protect underwater cultural heritage, and safeguard intangible cultural heritage, respectively. Yet, the current definition of ‘protection and preservation of heritage’ remains abstract and limiting in its applicability. Further, there exist many challenges today to preservation of cultural heritage worldwide: mass tourism, armed conflicts and terrorism, looting and illicit trafficking, population growth and urbanism, a lack of awareness and insufficient cataloguing and restoration, globalization, and climate change. The framework used in this article for defining challenges and proposing recommendations is based primarily on the protocols that have been set forth under the auspices of UNESCO, in addition to the work of crucial actors such as international, regional, and national institutions in the aforementioned conventions. This article is also a summary of a working paper to be presented at a preparatory meeting for the IPU General Assembly in Lusaka in March 2016.

Mass Tourism

World heritage requires marketable means to enable its preservation. However, tourism that is economically sustainable can overlook the qualitative elements of a heritage site; visitors are often “deceived about the nature of the good up for consumption [and are] placed in conditions of crowding and noise which are unsuitable anyway for any intellectual or aesthetic enjoyment.”¹ Further, when tourist services multiply, the authenticity of a cultural

¹ Françoise Benhamou, “L’inscription au patrimoine mondial de l’humanité. La force d’un langage à l’appui d’une promesse de développement,” *Revue Tiers Monde* 2/2010 (No. 202), 113–130.

heritage site is diminished. Even when, as in many cases, positive economic impact is undeniable, sustainability in terms of physical conservation and authenticity is put into doubt. Legislators must keep in mind that controlling tourist numbers and enforcing compliance of preservation procedures by visitors of the cultural heritage sites are vital to the sites' sustainability.

Armed Conflicts and Terrorism

Destruction of cultural heritage is no longer only a 'collateral damage' of violent conflict; the recent, intentional destruction of heritage sites by ISIS constitutes an offensive strategy that has shifted preceding notions toward the more-nuanced concept of the willful destruction and vandalism of cultural heritage. There is an absolute distinction between collateral damage and incidents of looting and cultural cleansing. Further, there have only been a few cases in which an intentional act of aggression toward cultural heritage resulted in punishment; most notable case involves a retired general of the former Yugoslav army who was sentenced for damaging cultural and historic sites in Dubrovnik in the early 1990s. Faced with threats of intentional destruction of cultural heritage, an expansive approach—seeking to prevent armed conflicts and terrorism from occurring in the first place—is vital. Parliamentarians must use their legislative power to enact laws that prohibit the destruction of cultural heritage during armed conflicts and expeditiously prosecute illegal actions.

Looting and Illicit Trafficking

The theft of cultural heritage is a threat to the core principle of heritage preservation. Looting often occurs in unstable political contexts and can be a substantial source of income for the perpetrators. Once an item is looted, its preservation no longer remains under the jurisdiction of UNESCO. Looters are not new; however, looting activities have significantly increased in the past decade. The looters include locals, tourists, and professionals. MPs worldwide must work towards providing the necessary political stability to avoid the circumstances amenable to looting; they can also work with national authorities to provide law enforcement the necessary resources to prevent such thefts.

Population Growth and Urbanism

Urbanization can have detrimental effects on cultural heritage, as mass tourism and rapid population growth tend to distort cultural heritage by displacing it from its proper context. Since tourism generates stable economic gains in the long-term, in development projects, cultural heritage projects are prioritized as lucrative. This tendency has negative consequences for those living in areas close to the heritage sites and may transform both the intangible and tangible heritage of such sites. In conflict zones, challenges are greater. In mapping out urban policies, legislators must consider the long-term, negative consequences of overheated development of tourist and cultural heritage sites, as the sites may be damaged and local populations adversely affected.

Lack of Awareness and Insufficient Cataloguing

Increased awareness and stricter enforcement of the underlying tenets of cultural heritage can help prevent the vandalism of cultural property and improve conservation practices in heritage site development. Many countries do not sufficiently catalogue their cultural property, leaving organizations such as UNESCO without the power or jurisdiction to help maintain and develop cultural heritage located within these countries. When citizens are not aware of the value of the cultural heritage sites in their localities, they are much less willing to preserve their heritage. Increasing awareness by cataloguing cultural heritage and affirming its importance can have an enduring positive impact. MPs should play an active role in incentivizing the cataloguing of cultural heritage and fostering enthusiasm within communities to preserve cultural heritage in ways that comply with the framework of UNESCO.

Restoration

UNESCO conventions that have been drafted thus far fail to address challenges related to restoration techniques for heritage that has deteriorated over time, restoration costs, or restoration of cultural heritage that has been damaged in armed conflict. Cultural heritage can be damaged when modern restoration techniques are used on sites. Furthermore, decisions

regarding the kinds of preservation techniques used for restoration are important, since the value of the heritage is affected by its deterioration as well as modification. In addition, leaving a site in a state of disrepair due to the costs associated with restoration can also reduce the site's value. Restoration work of cultural heritage sites damaged during wartime is also subject to the aforementioned constraints. Politicians and parliamentarians must weigh the positive effects of restoring and rebuilding damaged cultural heritage against the budgetary constraints.

Globalization

The rapidly increasing interdependence among cultures has enhanced diversity but has fueled global tourism, which has uprooted local cultures and degraded the value of heritage. Heritage can be a lucrative source of income, but tourism can become unsustainable for cultures whose heritage is not preserved, but consumed. Further, certain ceremonies that were once performed in an intimate setting are now available to the public as intangible heritage on display; however, such was not the original purpose of the ceremony. Local populations are oftentimes excluded from the process by which their heritage is catalogued and are denied the opportunity to participate in the preservation of their own cultures. Experts and expert status are often accorded greater say than indigenous people's knowledge in determining what heritage is and how to preserve it.

Intangible cultural heritage is also at risk due to globalization, global trade, and increased individual mobility. Irreconcilable differences in interest exist between the host culture group and those who wish to make economic profit from heritage. Legislators can act as advocates for civil society by affirming the value of cultural heritage. Encouraging participation of local leaders and experts in the process of defining heritage can facilitate the emergence of a more thorough and authentic representation of cultural heritage.

Climate Change

Tangible and intangible cultural heritage is adversely affected by climate change, yet this fact is often neglected in environmental policy-making. Climate change has the following

consequences:

- landslides and extreme weather events;
- rainfall, sea level rise, coastal erosion, frequent floods, and changes in groundwater levels;
- rising temperatures, decreased humidity, forest fires, heat waves, and drought.

These climate events can have negative impact on intangible heritage, and indigenous and marginalized populations are especially exposed and vulnerable. ‘Climate refugees’ will be less able to transmit and inherit intangible cultural heritage. Sites may erode when exposed to rain and other inclement weathers. Parliamentarians have an obligation to place climate change at the forefront of legislative proposals, emphasizing the importance of cultural heritage and the recognizing the danger that climate change poses to preservation of cultural heritage.

Conclusion

The challenges described above pose grave threats to preservation of the tangible and intangible heritage of humanity. These challenges must be addressed promptly; otherwise, the deterioration of cultural heritage will be inevitable. I encourage the MPs worldwide to act on these challenges by considering the following recommendations:

1. Creation of a tourist charter that lists rules and principles to be complied with by visitors from the time of their purchase of tickets for visitation of heritage sites.
2. Control of tourist flows: quotas should be established at the busiest sites during the busiest times.
3. Establishment of protection zones around particularly fragile heritage pieces and sites to prevent destruction by the tourist influx.
4. Creation of multilingual on-site security environments, so that violators of the rules and regulations for the preservation of the site can be warned.
5. Assessment of the impact of climate change on listed heritage pieces and sites.
6. Development of preventative measures for preserving movable heritage pieces.
7. Establishment of peacekeeping operations and national military guidelines that address the protection of cultural and historical sites.

8. Creation of accurate inventories of cultural heritage accompanied by photographs.
9. Regular updates of cultural heritage inventories and prompt responses to concerns regarding preservation of cultural heritage items and sites.
10. Monitoring of suspicious online sales by shifting the legal liability to the hosting websites, as practiced in Switzerland.
11. Consideration of future ramifications for heritage enhancement in developing urban projects.
12. Inclusion of the topic of heritage awareness in pertinent subjects in school curricula.
13. Development of incentives that reward cataloging of cultural heritage under the auspices of UNESCO.

Alain Destexhe, Vice Chair of PN, has been a member of the Belgian Parliament since 1995. He is a former Secretary General of Médecins Sans Frontières (MSF), former President of the International Crisis Group (ICG), and former President of Parliamentarians for Global Action (PGA).

Parliaments Must Up Their Game on Risk Management

Malini Mehra, CEO of Globe International

The Global Challenges Foundation's catastrophic risks report calls for an entirely new category of risk to be developed. It is a necessary start. Looking around, there are few institutions at the national or global level that are fit for purpose in addressing global catastrophic risk. From the UN Security Council to national contingency committees, few have been able to respond to the accumulation of mega risks our world faces today. National parliaments are no exception.

As most constitutional arrangements hold the executive branch of government operationally responsible for keeping the public safe, parliaments have been given short shrift. Given their vital oversight, budgetary and law-making functions, however, it is high time parliaments came into their own and developed new and innovative approaches to risk management of the catastrophic and global kind.



One need not look too far to see why a new approach is needed. From Syria's implosion and the rise of IS to Greece's meltdown, the Global Financial Crisis and Hurricane Katrina,

virtually all of our established risk management institutions have been found wanting. When he became the USA's secretary for Homeland security, Michael Chertoff, the country's top risk-management official admitted that authorities had got things wrong. According to him, managing risk was "the fundamental social problem that we face in the 21st century."

Reflecting on the 9/11 attacks that heralded a fundamental reappraisal of America's vulnerability, he admitted they had not been a "total surprise" and that officials had "misjudged the risk." He said, "We had report after report that talked about the need to strengthen our homeland security. And with all of that, we did not devote even a fraction of the investment we currently put into homeland security ... before September 11."

Hurricane Katrina in 2005 was another wake up call. The authorities had known for a long time that cities below sea level such as New Orleans were vulnerable to powerful storms, but they were caught off guard. Chertoff summarized, "It's clear that government at all levels simply failed to invest in maintaining critical infrastructure such as the levees ... wreaking untold havoc" upon the city and its sitting-duck inhabitants.

The financial crisis of 2008, which began in the US sub-prime housing market and migrated to cause havoc across the world, had similarly been "predicted over a period of years, going back into the 1990s," according to Chertoff. But "we have not managed to address the risk in a way that prevented what was ... a [financial] disaster of the magnitude of a natural disaster and a terrorism disaster." This led to far costlier action after-the-fact than if a preventative approach to risk had been in place.

We know now that every dollar invested in disaster risk reduction and prevention yields multiples back in benefits in terms of lives saved and infrastructure protected. The Japanese have demonstrated this principle most effectively through early investment in DRR. This foresight resulted in far fewer deaths in the Great Eastern Japan Earthquake & Tsunami of 2011 than could otherwise have been expected from a natural disaster of this magnitude.

For experts such as Chertoff, whose task is to keep the country safe from such events, the problem is that society as a whole has failed to manage risk properly on a forward-looking basis, and institutions have failed to learn from their mistakes. This is why he calls for a "disciplined, risk-managed approach" involving lesson learning from major catastrophes.

Lessons can also be learned from successful sectoral approaches such as in the aviation and nuclear industries – and increasingly in top-tier mining – where a strong safety culture, policies, protocols and technology have served to dramatically reduce accidents and harm. None of these have arrived at overnight but their history can be salutary for policymakers and legislators seeking to establish more robust frameworks and regimes to protect citizens from harm.



One example of a parliament that did attempt to scrutinize the government's approach to risk management and societal attitudes to risk and risk aversion, was the UK Parliament. In 2006, the UK House of Lords undertook a study which found that the government did have clear and established principles on risk management:

- openness and transparency—Government will be open and transparent about its understanding of the nature of risks to the public and about the process it is following in handling them.

- involvement—Government will seek wide involvement of those concerned in the decision process.
- proportionality and consistency—Government will act proportionately and consistently in dealing with risks to the public.
- evidence—Government will seek to base decisions on all relevant evidence.
- responsibility—Government will seek to allocate responsibility for managing risks to those best placed to control them.

In addition to these general principles, specific steps were identified that should be used in policy appraisal process, such as:

- consider whether market failures or equity considerations point to the need for intervention
- carry out expert risk assessment and assess public concerns
- assess monetary costs and benefits of alternative policy options with explicit recognition of uncertainty about values
- assess non-monetary costs and benefits of alternative policy options; develop and monitor an implementation plan

Despite a clear framework being in place, however, the question remained whether the framework was properly applied and whether structures and cultures of risk management were aligned.

It is telling that in this (pre-global financial crisis) study there was no identification of financial risk and that ‘societal risk’ was portrayed as too remote or difficult a risk for parliaments to address. It is worth noting in full how ‘societal risk’ – what we could interpret as catastrophic global risk – is defined in this parliamentary review:

“Societal concerns or the risks or threats from hazards which impact on society and which, if realised, could have adverse repercussions for the Institutions responsible for putting in place the provisions and arrangements for protecting people, e.g. Parliament or the government of the day. This type of concern is often associated with hazards that give rise to risks which, were they to materialise, could provoke a socio-political response, e.g. risk of

events causing widespread or large scale detriment or the occurrence of multiple fatalities in a single event. Typical examples relate to nuclear power generation, railway travel, or the genetic modification of organisms. Societal concerns due to the occurrence of multiple fatalities in a single event are known as societal risk. Societal risk is therefore a subset of societal concerns.”

Just in this brief discussion, it is evident that traditional parliamentary approaches to national risk management, let alone global catastrophic risk management, are under-developed and urgently in need of overhaul. As the Katrina and Deepwater Horizon congressional inquiries in the USA show, Congress only became involved after the fact. A proactive, more forward-looking and less reactive approach to understanding national security and national and global risks by parliaments is long overdue. The siloed and fragmented committee approach to risks - ranging from global health crises to environmental disasters, terrorism and artificial intelligence – in most parliaments, cries out for reform.

Given the inter-dependent nature of our world, it is clear that innovations at the level of national parliaments but be accompanied by innovations in inter-parliamentary dialogue and multi-level cooperation on these issues. Through initiatives such as the quarterly risk and opportunity report, we now have a platform to discuss what is needed and to bring legislators into a forward-looking dialogue to create more responsive and resilient risk management systems. The learning curve is steep but exciting. The gains are manifold. More engaged parliaments and better governance can bring multiple co-benefits in terms of safer, more peaceful, stable and sustainable societies.

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Malini Mehra is the Chief Executive Officer of Globe International, a global network of legislators with the mission of advancing practical action on sustainable development.

Five Trends in the Fight Against Extreme Poverty in Latin America and the Caribbean

The World Bank Group



A family in Nicaragua

The world has established a 15-year period for ending this scourge. Experts believe it is a difficult, but not impossible, task.

Ending extreme poverty around the world has a deadline: 2030. At least that is the date set by the World Bank, the main global organization that fights it. The World Bank recognizes that achieving this objective within 15 years will be difficult – but not impossible – despite the global economic slowdown, the end of the commodities boom and capital flight from emerging markets.

Reasons for optimism include the fact that this year, the percentage of people living in extreme poverty around the world will fall below 10%. In other words, people whose income

falls below US\$1.90 per day, according to the [global poverty line recently adjusted by the World Bank](#).

According to the experts, the implementation of poverty reduction policies for more than a quarter century is responsible for this decline.

The Bank renewed its commitment at its Annual Meetings, which ended last week in Lima, shortly before the United Nations celebrates the [International Day for the Eradication of Poverty](#), on October 17.

Additionally, the new [Sustainable Development Goals](#) were recently published. The first goal is precisely to end poverty, and also include related issues such as education quality and gender equality, among others.

Five trends

In Latin America and the Caribbean, the World Bank considers a person whose income is less than US\$ 2.50 per day to be living in extreme poverty. The percentage of the regional population in this situation decreased from 12.2% in 2012 to 11.5% in 2013, [according](#) to the organization's data.

Five major trends characterize efforts to end extreme poverty in our region within 15 years:

1. The extreme poverty rate fell by half in 10 years.

The region's population living in extreme poverty declined from 24.1% in 2003 to 11.5% in 2013, [according to the study mentioned above](#). Haiti, one of the poorest countries in the region, also managed to reduce extreme poverty – which Haitian officials define as living on less than US\$1.23 per day- from 31% to 24% between 2000 and 2012. [This video](#) discusses some of the obstacles the small nation has overcome and the challenges it still faces.



Haiti: Investing in people to fight poverty

- 2. Just over half of the population that lived on less than US\$ 4 per day in 2004 escaped poverty between that year and 2012.**

One of every five Latin Americans failed to do so, however. These individuals are known as the chronic poor. “There are some 130 million Latin Americans who have in no way benefitted from the region’s impressive development over the past decade,” says Ana Evenga, senior director of the Poverty and Equity Global Practice, [in this video](#).



Chronic Poverty in Latin America

3. Income inequality declined during the 2000s thanks to the commodities boom.

Since 2010, inequality has stagnated in the region, according to a World Bank study. “Large, costly new programs are not always needed: we can integrate behavior analysis of existing programs to make small, inexpensive modifications that can help us reach people forgotten by traditional programs,” says Revenga. For example, a program in Peru that experimented with text messages to encourage people to save more led to a 16% increase in savings. In Nicaragua, a program that provides subsidies and training to enterprises created a space where beneficiaries and local leaders could establish contact. This effort increased non-agricultural per capita income by US\$ 3.30.

4. For the first time in history, there are more people who belong to the middle class than who live in poverty.

Between 2003 and 2013 in Latin America and the Caribbean, nearly 100 million people have climbed the social and economic ladder to join the middle class. This increase has to do with the growth dynamics and job creation, [says Augusto of la Torre](#), chief economist for Latin America and the Caribbean at the World Bank. This is reflected in important changes in people’s daily lives. “This is the first time I’ve flown on a plane” says Jorge of Sao Paolo, Brazil, [in this video](#), “and if everything goes well, I’ll continue to do so.”

5. The current economic slowdown is threatening the social gains made in the region.

The region is expected to grow 0% in 2015, which would be the fourth consecutive year of growth below forecasts, [according to the most recent World Bank report on expectations for the region](#). Although the unemployment rate has not risen substantially, job creation has stagnated, the quality of employment has deteriorated and the labor participation rate has fallen, according to the report. Nevertheless, as de la Torre explains in [this interview](#) (sp), with well-targeted safety nets, it will be possible to mitigate the impact of the economic slowdown on the most vulnerable citizens.



Jobs, Salaries and the slowdown in Latin America (sp)

Reprinted from:

<http://www.worldbank.org/en/news/feature/2015/10/15/five-tendencies-fight-against-extreme-poverty-latin-america-caribbean>



How to Manage the Commodity Rollercoaster

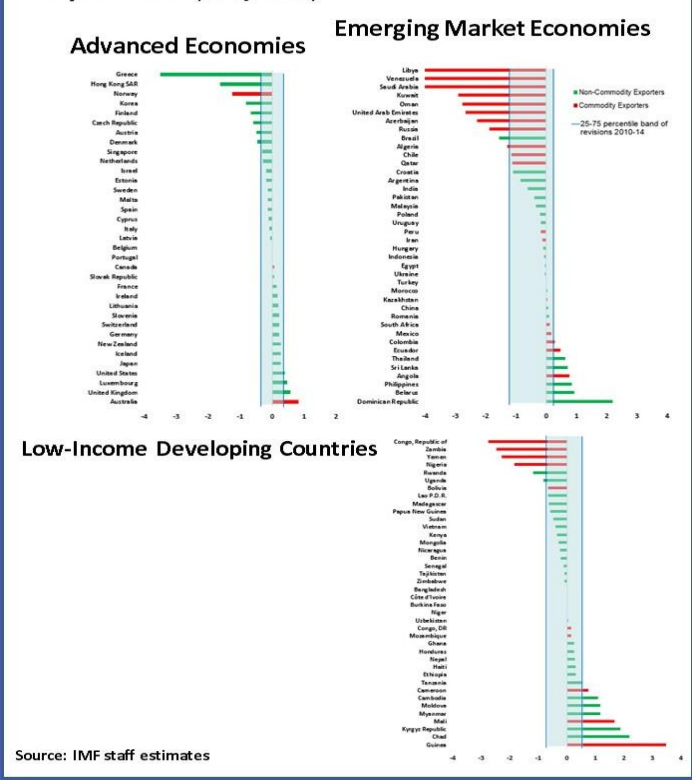
Vitor Gaspar

Director of the Fiscal Affairs Department of the International Monetary Fund

The world economy is experiencing important transitions and associated uncertainties.

- Commodity prices have fallen sharply, with adverse consequences for exporting countries.
- China's rebalancing and the prospect of U.S. interest rate increases are having important and costly spillover effects on other economies.
- And these and other factors are posing important fiscal challenges, especially for emerging markets.

Chart 1. Revisions to the Primary Balance relative to April 2015 (% of GDP)



Indeed, since our assessment in April, we have seen a significant deterioration in fiscal positions (measured by the primary balance) for emerging economies and for commodity exporting countries (Chart 1). And this has translated into higher levels of public debt.

It is timely therefore that this issue of the Fiscal Monitor focuses on the conduct of fiscal policy under uncertainty, with particular attention to the uncertainty created by commodity price fluctuations.

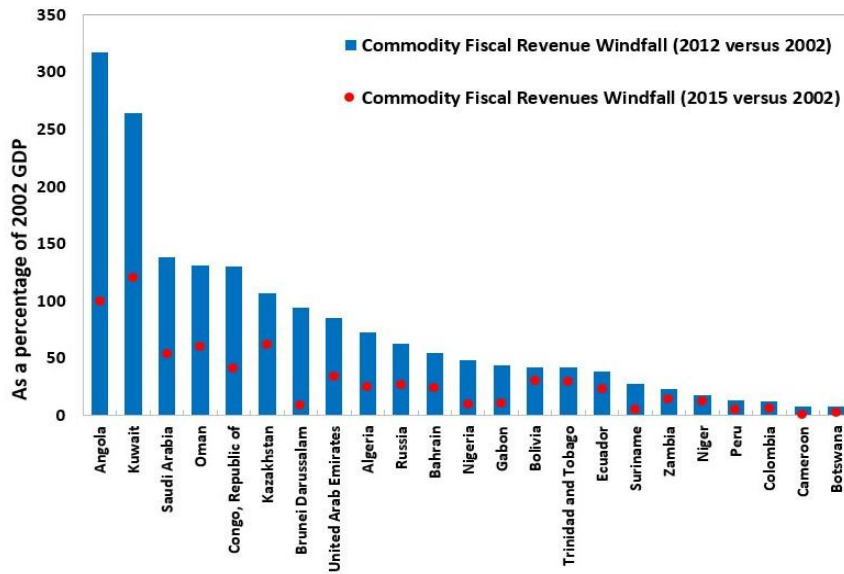
The rise and fall of commodity revenues

The recent sharp decline in commodity prices has reminded us that these prices are volatile and highly unpredictable. History tells us that commodity price booms and busts can involve prices moving by as much as 40 to 80 percent. Moreover, these movements can also be highly persistent.

What we document is the fact that fiscal policy is key to the transmission of commodity price fluctuations to the rest of the economy. This occurs for at least two reasons. One, in countries where governments rely heavily on commodity revenues, commodity prices tend to cause large fluctuations in fiscal revenues. The second reason is that insulating government spending from volatile revenue has proved particularly difficult. As a result, spending in these countries has been strongly procyclical: increasing during price booms and falling during price busts.

This time around is no different. The fiscal implications of the sharp decline in commodity prices are very large. The deterioration in the 2015 primary balance in commodity exporting countries is about 5 percentage points of GDP on average, with countries like Saudi Arabia and Venezuela experiencing a particularly sharp decline. This reflects a massive reversal of the revenue windfall that commodity exporters accrued during the boom years. About half of this windfall has been reversed so far (Chart 2).

Chart 2. The large commodity revenue windfall experienced by resource-rich countries since 2002 is being rapidly unwound

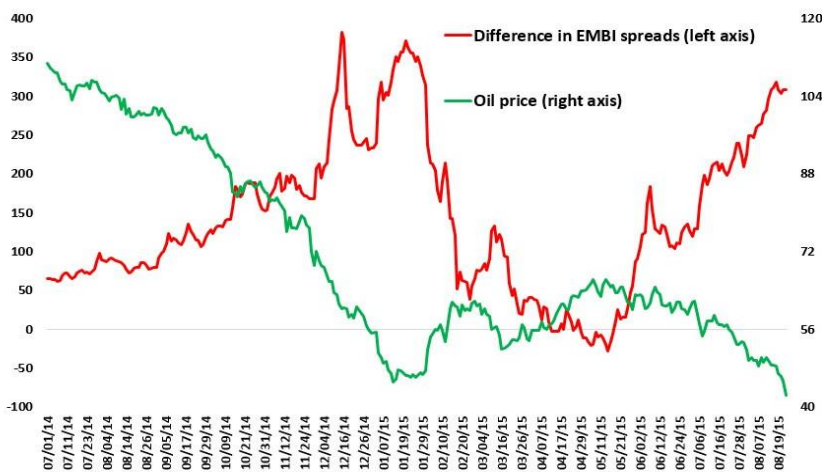


Source: IMF staff estimates

And not only are revenues weaker, but external financing conditions in commodity exporting countries have tightened, making it harder and more expensive to finance spending (Chart 3).

Indeed, global financial markets are particularly unforgiving—financial conditions tend to worsen significantly precisely at times when commodity exporters need financing.

Chart 3. Oil Prices and Difference in EMBI spreads between commodity exporters and non-commodity exporters (basis points)



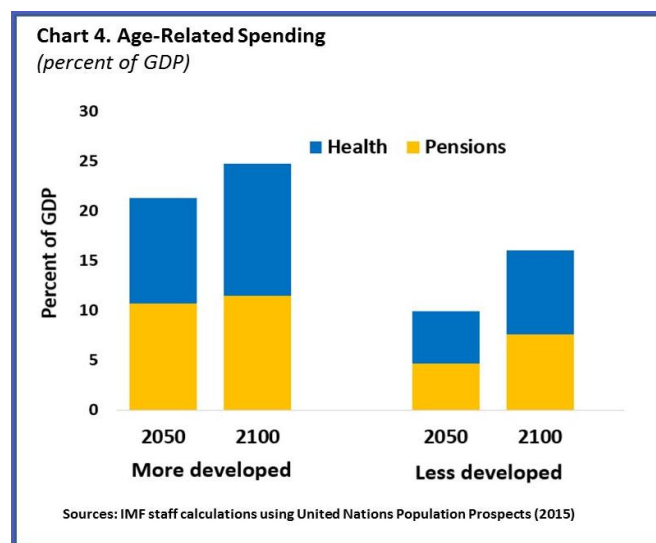
Sources: Bloomberg and IMF staff estimates

Those commodity exporters that built buffers during the boom years or had easier access to capital markets, such as Chile, the Gulf countries, and Norway have been in a better position to support government spending. In many other countries, however, budgets are under stress.

All commodity exporters will need to adjust public spending to lower commodity revenues, while safeguarding to the extent possible essential capital and social spending. The pace of adjustment will depend on the availability of buffers and market access. The latter crucially depends on the credibility of the fiscal framework.

How about countries that are not commodity exporters? Fiscal balances in emerging market and low-income economies have also worsened, reflecting a combination of weak growth prospects and country-specific factors. More encouraging is that prospects in advanced economies remain broadly unchanged compared to April, as the modest recovery progresses broadly in line with earlier projections.

But our long-standing warning about high public debt and its adverse economic impact remains very relevant. In advanced and in some emerging market countries debt levels have reached extraordinary levels, and—to make matters worse—these economies have huge future obligations from age-related spending. We estimate that health and pension spending will rise to 25 percent of GDP, by the end of the century, in advanced economies and 16 percent of GDP in less developed countries (Chart 4). We will present important new evidence of the fiscal implications of demographic trends at the end of the month in Tokyo.



How to thrive despite the wild ride

Given the magnitude of the challenges I just presented, the key question is: how can governments manage public finances to deal with these daunting long-term challenges, while also coping with the substantial near-term risks and uncertainties?

The answer to this question, and one of the main messages of the *Fiscal Monitor*, is that the conduct of fiscal policy under uncertainty can be improved by adopting a robust and coherent risk management framework. And we believe that this framework needs to rest on four pillars:

One, budget revenues should be mostly derived from broad-based taxation, backed by strong compliance. In the case of commodity exporters, more efficient revenue mobilization can mitigate revenue volatility. One specific aspect is the taxation of multinational corporations. These reforms can be part of the fiscal adjustment strategies that commodity exporters will need to pursue.

Two, improving the efficiency of spending, including energy subsidy reform, continues to be a priority and can facilitate fiscal adjustment. That is also clearly the case in core areas for sustainable and inclusive growth such as public investment, health and education.

Three, it is important to put in place fiscal frameworks that help countries save during good times so they can protect spending during bad times. In commodity producers, this saving has to strike the right balance between accumulating financial assets, investing in physical infrastructure, and investing in people through health and education spending. Moreover, it is essential to start now in implementing a more robust framework that can help countries deal with the uncertainty that lies ahead.

And four, the quality of institutions is crucial. Fiscal rules and procedures are important, but they need to be underpinned by a broader social and political commitment to adhering to these rules and laws.

These pillars are important for all countries, but they are especially crucial in resource-rich countries where the conditions for managing public finances are much more challenging. And the Fund remains committed to assisting its membership in building these pillars, not just in

the analysis I am presenting today, but in the context of its regular policy dialogue with countries, and the extensive technical assistance we provide.

iMFDirect blog home: <http://blog-imfdirect.imf.org/>

<http://blog-imfdirect.imf.org/2015/10/07/how-to-manage-the-commodity-roller-coaster/>

Vitor Gaspar, a Portuguese national, is Director of the Fiscal Affairs Department of the International Monetary Fund. Prior to joining the IMF, he held a variety of senior policy positions in Banco de Portugal, including most recently as Special Adviser. He served as Minister of State and Finance of Portugal during 2011-2013.

Interview with Senator Eve Bazaiba Masudi

Eve Bazaiba Masudi, Member of the Parliament of the Republic of Congo

Bulletin Interview Questions

Q: Comment est-ce que le Réseau Parlementaire important à vous et vos collègues internationales?

Plusieurs Parlementaires n'ont pas connaissance des mécanismes de financement, d'appui technique et d'affectation des ressources extérieurs en provenance de la Banque Mondiale, du Fond Monétaires Internationale et d'autres bailleurs des fonds. Le Réseau permet donc de renforcer les capacités des Parlementaires à ce sujet et permet aussi à ces derniers d'être bien outillé dans le contrôle parlementaire.

Avec les collègues au niveau international, le Réseau constitue une passerelle d'échanges d'expériences en matière d'affectation des ressources extérieures au budget national et du contrôle de l'action du Gouvernement.

Q: Si le Réseau Parlementaire pourrait avoir un effet positif et concret dans le domaine du développement international pendant les deux années qui se dérouleront, comment envisagez-vous ces moyens?

Le Réseau va permettre d'impliquer les parlementaires de chaque Etat membre, selon la spécificité de chaque pays à la réalisation par leurs Gouvernements des objectifs précis et prioritaires parmi les 17 retenus au niveau international comme étant les Objectifs pour le Développement Durable, ODD.

Q: Quand est-ce que vous avez commencé de vous engager avec le Réseau Parlementaire et quelles étaient les raisons pour devenir un Membre du Conseil Administratif du Réseau?

Bien que ce Réseaux ait existé en République Démocratique du Congo depuis 2010, mon engagement effectif a commencé avec ma participation à la Conférence Parlementaire Global

du mois d'avril 2015. Installer et rendre efficace le Comité Local du Réseau, participer activement et initier des actions pour la visibilité externe du Réseau et renforcer ma capacité de promouvoir le développement international sont là les principales raisons qui m'ont poussée à devenir l'un des membres du Conseil d'Administration.

Q: Avez-vous des intérêts thématiques que vous voudriez vous concentrer comme un Membre du Conseil Administratif ? Comment est-ce que vous aurez un effet positif dans ces domaines ?

Thématique de l'Information et de la Formation: Dans la plupart des cas les parlementaires ne sont pas consultés au stade de négociation des accords conclus entre les institutions de Bretonwood et leurs pays. Ils sont invités seulement à autoriser la ratification de ces accords conclus et à adopter les lois nécessaires pour leurs mises en œuvre. C'est ce qui explique les difficultés que connaissent les parlementaires à contrôler les mécanismes de financement et d'exécution des ces projets. D'où la nécessité de mettre l'accent sur l'information et la formation.

Thématique Echange d'expériences: les statistiques des Nations Unies montrent qu'il ya des pays qui ont atteint certains objectifs du millénaire pour le développement OMD avec l'appui de la Banque Mondiale du Fond Monétaire International. D'autres pays dont la République Démocratique du Congo n'ont atteint aucun objectif. D'où la nécessité d'échanger d'expériences à travers le Réseau en vue de permettre aux parlements membres d'accélérer la mise en œuvre des Objectifs de Développement Durable ODD d'ici 2030.

Q: Est-ce que vos constituants voient les effets de la coopération du développement internationale ? Si oui, comment voient-ils ces effets?

Face à la défaillance de l'action du Gouvernement dans l'atteinte du bien être social de la population, les constituants en République Démocratique du Congo ne voient pas l'effectivité de la coopération et du développement international. La population vit dans une extrême pauvreté et la plupart des projets ne profitent pas à la population. Seul 1% de congolais accède à l'énergie et à l'eau potable. Les effets de l'appui budgétaire du Fond Monétaire International ne sont pas palpables et la plupart des projets financés par la Banque Mondial

ne tiennent pas compte des besoins réels des populations concernées. Dans le cadre de la protection de l'environnement et les airs protégés déclarés patrimoine mondial, la population riveraine est interdite d'accès aux ressources forestières sans aucune compensation.

Q: Quels sont vos loisirs quand vous avez du temps disponible?

Activités maraichères, lecture et réseaux sociaux, sont là quelques moments de loisirs quand il y a du temps disponible.

Eve Bazaiba Masudi is a Member of Parliament of the Democratic Republic of Congo. She is the Chair of the Social and Cultural Committee and Secretary General of MLC (Mouvement de Libération du Congo), main opposition party in DRC. She served as President of the Social and Cultural Senate Committee from 2007 to 2012.

Getting Ready for the Next Wave: Towards a More Dynamic and Inclusive Latin America

Mario Pezzini, Director of the OECD Development Centre
Angel Melguizo, Head of the Latin America and Caribbean Unit at the OECD
Development Centre



Latin America and the Caribbean enjoyed a decade of strong growth between 2004 and 2013. Growth averaged 3.8% and in some years over 5%. They were helped along by growth in China and other emerging economies that raised demand and prices for exported commodities such as food, metals and fuels.

This led to an extraordinary easing of financial conditions, especially after the global financial crisis. Latin America was riding good times. However, the extraordinary external conditions blurred the true state of the region's domestic supply and demand situation. Now the good times are over – at least for a while – and it is easier to check out the true shape of the regional economy.

Latin America grew in 2014 at the slowest pace in five years – lower than the OECD for the first time in a decade. There is concern that the [low growth rates of around 3%](#) forecast for

next few years are not indicative of a temporary slowdown but rather of lower growth potential.

“Latin America needs more skills and innovation to better integrate into the shifting wealth process”

Productivity growth remains modest compared to that of the OECD countries and other emerging economies. The productivity gap between the majority of LAC countries and the most developed economies is increasing, while Asia’s has closed. With the exception of Chile, Uruguay, and a few Caribbean countries, most economies in the region are stuck in the “middle-income trap”.

In 2011, commodities accounted for up 60% of the region’s goods exports, up from 40% in 2000. While commodity exports increased, Latin American economies substituted locally made goods for imports, contributing to a slowdown in regional manufacturing. Industrial policy can be a key factor in driving economic modernisation, as emerging Asian economies and OECD countries have shown. The region needs to address [supply-side bottlenecks](#). In particular, the growth of small- and medium-size enterprises is constrained by difficult access to financing and services, particularly the high cost of long-term credit. Public policies could have a transformative effect, particularly by freeing up financial resources by expanding the growing role of development banks.

Improved infrastructure and logistics could help bolster structural change and strengthen regional integration. In Latin America, 57% of exports consist of perishable or logistics-intensive products, three times more than the OECD average. In addition, elevated transport costs significantly limit regional integration. The level of intraregional trade in Latin America is only around half that in the EU or Asia. Better roads, railways, ports and airports are essential. “Soft” solutions are also needed like integrated logistics policies; modern storage facilities; efficient customs and certification procedures; improved use of information and communication technologies, and greater [transport competition](#).

Latin America remains the world’s most unequal region; the income gap between the richest and the poorest 10% is 27 to one in Mexico and Chile.

The region needs more skills and innovation to better integrate into the shifting wealth process. Latin American firms are three times more likely than south Asian firms and 13 times more likely than Pacific-Asian firms to face serious operational problems due to a shortage of human capital. The car and machinery industries are particularly affected. Vocational education and training, as well as the [ties between higher education institutions and the private sector](#) must be strengthened. Efforts to build human and physical capital should be accompanied by [greater innovation](#).

Growth helped to dramatically reduce poverty, but profound socio-economic inequalities are still evident. Poverty still affects 28% of Latin America's population, about 164 million people. Latin America remains the world's most unequal region; the [income gap between the richest and the poorest](#) 10% is 27 to one in Mexico and Chile.

One of the most important recent trends has been the surge of an emerging middle class. They are not in a situation of poverty and they represent a growing source of consumption. But many [remain vulnerable](#) to loss of employment, health problems, or to income falls after retirement. One of the most notable vulnerabilities of this emerging middle class is its high labour informality. In Latin America, 5 in 10 middle-sector workers are in the [informal](#) sector, just slightly below the average across the workforce.

Education and skills should be a driver of economic growth, but also of social inclusion and equality. Latin America has taken great strides, raising the average number of years children spend in school from 8 to 13, compared to 17 in OECD countries. This is thanks to a significant budgetary effort that has pushed education spending averages up to 5% of GDP, just below the OECD's 5.6% rate. Despite this progress, the gulf between the performance of Latin American secondary students and those in OECD countries is still equivalent to more than two years of schooling according to the 2012 PISA tests. [Access and performance also remain highly unequal](#) by income and gender.

Latin American governments must act now to deliver better public services. Current gaps, especially in education, infrastructure and innovation, act as a brake on economic growth and well-being [throughout the region](#).

Improved infrastructure and logistics could help bolster structural change and strengthen regional integration.

Fiscal reform is a necessary condition of real change in the capacity of Latin American and Caribbean states. This does not only mean being thrifty with existing resources, but also generating long-term, stable government revenue. In general, taxes are not high; the region collects 21.3% of GDP vs. 34.1% in OECD. Many people in the informal sector don't pay, and the [affluent don't always contribute much more than the poor](#).

The emerging middle class can be key players in a renewed social contract. Over 60% of Latin American citizens support democracy but only 41% are satisfied with the way it functions, according to a 2011 Latinobarometro poll. This explains the mobilisation of citizens in Argentina, Brazil, Chile, Mexico and other countries demanding measures to fight corruption, more reliable public transportation or better education. The middle sectors consider themselves losers in the fiscal bargain and are less willing to pay taxes or support fiscal reform. But this can be changed.

The current political context presents an excellent window of opportunity for bold and ambitious reforms for a more dynamic and inclusive Latin America. After 14 presidential elections from 2012 to 2014, held in a highly stable climate, the region has the political space to put forward far-reaching reforms. In this context, cooperation between the Community of Latin American and Caribbean States and the European Union will be beneficial for both, particularly in the exchange of policy experiences. Trade and investment between them have been increasing and creating wealth on both sides. The EU can learn from the experience of CELAC countries in dealing with debt and financial crises, CELAC countries can find inspiration from EU efforts to spur growth. The EU's great regional integration programme is an invaluable experience which CELAC countries can draw on. Let's hope the region will be in even better shape to ride the wave when the next good times come around.

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Latin America's Future: Rebounding Growth through LAC's Champion

Parliamentary Network Secretariat

Peru has been the undeniable champion of growth for the region of Latin America & the Caribbean during the last decade. The country grew at an annual rate of [6.1%](#) between 2006 and 2014, nearly doubling the average for the entire region at 3.3% during the same time period. Even in 2009 when the global economic crisis struck, Peru grew at 1% while the region saw a decline of growth at -1.6%. Considering the aforementioned crisis, the continent and its periphery flourished and grew significantly. However, growth has tapered off in the past five years, as forecasts from the leading international development agencies are predicting near-zero growth during 2015 for the entire region. Peru is no exception, as it is expected to grow at the same pace of 2% with a pickup in growth forecasted during 2016-2017. There are several domestic and external elements which have been influential in the positive and negative growth for Peru and the region it has economically championed. What are these elements and what can legislators do to help facilitate a rebound to put the Peruvian and regional economic outlook on its recently-familiar pace of success?

External Factors

Peru and the LAC region have been subject to external factors which benefited economic prosperity during the last decade, but also have shown wavering signs of decline in the past few years. China's economic success and slowdown, the decrease of global commodity prices since 2011, and interest rate uncertainty from the USA have become factors negatively impacting the region's growth, and will continue to do so in the current outlook.

The regional economic prosperity for Latin America and the Caribbean has been both beneficiary and victim of the country of [China's economic circumstance](#); today, this means LAC and many countries in the world are seeing the adverse effects of an overheated Chinese economy. Leadership within the country has reached investment points nearly 50% of national income during 1996 and 2013, unprecedented growth during an equivalent time period. In order to accomplish this, however, the Chinese government opened credit markets to levels which are untenable, as debt levels are rising without robust performance to match

strategic outlook. Conversely, trade is slowing in Asia and global banks are becoming increasingly exposed to China's economic slowdown. The economic climate in China has led to great uncertainty with few policy options to regain global confidence. For LAC countries, China's importance in terms of exports [increased significantly](#) during 2000 and 2013. One percentage point of growth deceleration in China was associated with 0.6% growth deceleration for the LAC region in 2013, as growth-driving countries in the region (Peru, Brazil, Colombia, and Argentina) at least doubled their percentage of exports going into China during the aforementioned time period. Thus, as China's economic prospects diminish, so do those of the LAC region.

Commodity prices globally have been on the decline since 2011 at the earliest, spanning until today where "Global supply and demand conditions have conspired to generate lower price expectations for all nine of the World Bank's commodity price indices – an extremely rare occurrence," said Ayhan Kose, Director of the World Bank's Development Prospects Group in [January 2015](#). The energy, metals and minerals, and agricultural raw materials all saw declines of approximately more than 35% during 2011 and 2014 by the same report. For a country such as Peru, where mining and oil/gas represent over [two-thirds](#) of exports globally, productivity gains will not be found in the coming years if global consumption continues to decline. Peru's natural resources consist of [copper](#), [gold](#), and [zinc](#), all of which have seen price declines since 2011. [Demand is sluggish](#) or nonexistent in places where previously this was not an issue, leading to an oversupply and a halt on not only Peru's economic prosperity, but that of the LAC region's as well.

The American Federal Reserve (FED) had not raised interest rates since [June 2006](#), keeping rates intentionally low as a means to bring growth back to the economy. The decision to increase interest rates creates [volatility](#) in the LAC region, as the rate to spend will now be more expensive for the first time since 2008. Countries such as Peru which [export](#) to the USA will become medium-term beneficiaries after some short-term volatility; however, austerity measures will be necessary due to this exogenous factor.

Internal Factors

LAC countries have made significant choices in recent decades to make substantial improvements to their respective domestic economic outlooks. However, issues such as public sector reform, crime, and gaps in productivity can all be addressed by MPs to bring the region's growth prospects to levels seen during the past decade.

Although LAC countries have relatively small public sectors (as noted by the OECD-IDB report [Government at a Glance: Latin America and the Caribbean](#)) that are constantly in the process of evolving and improving, the reality remains that budget management, tax collection, and public sector pay equality are out of balance. The [study](#) shows that top managers in the public sector earn 11 times the per-capita GDP average income, whereas OECD countries' public sector management earns 6 times that of the per-capita GDP average income. Further, revenues collected and spent from LAC governments are significantly lower than OECD averages (25.6% versus 41.9%, 27.8% and 45.2% of GDP, respectively). It is estimated that [60-70%](#) of the Peruvian economy is informal. Finally, 10.7% of the labour force is publically-employed in LAC countries, putting into question the ability for the public sector to provide adequate services to citizens. Adapting to these realities would push the LAC region further into the economic range of OECD countries. [Peru](#), which has the highest general government fiscal surplus, general government investment as a share of GDP, lowest gap among senior and junior professionals in central government, and statistical capacities far [outweighing](#) the LAC region, is efficient in many ways and serves as a focal point and example for public sector reform in the region.

From 2005 to 2013, the proportion of the population living from \$1.90 per day [dropped](#) from 14.2% of the population to 3.7% of the population in Peru. This is a transformation which has significantly influenced the robust growth of the Peruvian economy during the last decade; however, significant issues still remain in Peru as well as the entire region. Although most countries in the LAC region have seen decreasing inequality ([table 2.3](#)) since 1990, the region still faces crime rates and corruption which have an adverse impact on human development. Latin America is the only region in the world where lethal violence [increased](#) between 2000 and 2010. Robbery rates increased in Peru between 2005 and 2011 from 163 to 217 per 100,000 inhabitants, according to the same report. In several countries in the region, the

perception is that police are more involved in crime than protecting people from crime itself. The Inter-American Development Bank (IDB) [estimated](#) that productivity has gone down significantly in the region from a period of 1960 to 2010. What explains this? While updates in technology took place and global value chains were promoted and saw success, Latin American business stayed more-locally based, as trade policy in the region is still highly protectionist in nature and out of sight where global value chains exist. Small producers in LAC are typically [excluded](#) from markets and global value chains due to economies of scale, financing of the organisation, expertise, and know-how. Further, investment in infrastructure is dragging behind global averages, as the region averaged [3.49%](#) of GDP dedicated towards infrastructure in 2012, whereas India and China [spend](#) around 8% and 9% respectively. Thus, there is much room for productivity gains in the LAC region.

What can MPs do?

Legislators are tasked with very particular mandates in any particular country. Thus, there is no ‘one-size fits all’ category for how legislators in the LAC region can uniformly facilitate prosperous, sustainable growth for their constituents. Peru has been a model of success for the LAC region, yet faces substantial challenges in the short and medium-term. Thus for what is pertinent to Peru could be similar to that of other LAC countries. The following suggestions are to be considered, given the external and internal factors inhibiting the potential of the region for now and in the future:

- Keeping an eye on international markets, specifically with regards to trade partners such as China and the USA, in order to see how local businesses can take advantage of market conditions and enter into global value chains.
- Support legislation which utilises the over-supply of commodities within regional trade frameworks.
- Engage with more international actors in order to facilitate the diversification of economic portfolios for the country, avoiding the tendency to only trade with a few actors and be subject to their economic performance.
- Reform public sector wages so that all officials receive a more equitably-balance income.
- Focus on tax collection and decreasing the level of informal employment so that the state can have sufficient revenues to decrease crime rates regionally.

- Increase spending on robust public services to improve development indicators related to education and health across age cohorts.
- Invest in infrastructure and SMEs to facilitate an increase in trade and entry points into global value chains.

Network Featured Discussion

Göran Pettersson, Member of the Swedish Parliament

I am thrilled to take on the task of editing the discussion section of *The Parliamentary Network Review*. According to its mission statement, the Parliamentary Network seeks to “encourage debate and information exchange among parliamentarians on issues of good governance, budgetary oversight of development funds, and civil society participation in the legislative process.” My hope is that the discussion section of the PN review will serve as a forum for dialogue and knowledge-sharing among our member parliamentarians. I will encourage PN members to participate in the discussion by suggesting a special topic for each coming issue. Articles on other topics will also be accepted, but priority will be given to those addressing the special topic. To maximize the impact of your contribution on our readers, I ask that you keep the text short and develop clear and concise lines of argument.

The topic for next issue’s discussion section is **the Eurozone crisis**.

- What further measures should be taken to reduce negative repercussions of the European debt crisis on our societies and citizens?
- What have we learned from the present crisis? How can we prevent similar crises in the future?
- How can Europe emerge from the present crisis and achieve economic and financial sustainability?

Please send your contributions to goran.pettersson@riksdagen.se.

MP Göran Pettersson

Discussion section editor, *The Parliamentary Network Review*

Göran Pettersson is the Chair of the Swedish-American Parliamentary Network and the OECD Network in the Swedish Parliament.

NOTE FROM EDITOR

I thank the authors of this issue for their valuable contributions. If you would like to write for future issues or have suggestions for improving the publication, please contact me at enoh@princeton.edu.

Eu Na Noh

Editor, *The Parliamentary Network Review*

CALL FOR SUBMISSIONS

If you would like to contribute an article to *The Parliamentary Network Review*, please send your submission to Editor Eu Na Noh at enoh@princeton.edu or Junior Programme Officer and French articles editor William Perlmutter at jpo1@parlnet.org. If you would like to write for the Network Featured Discussion, please contact Discussions Column Editor Göran Pettersson at goran.pettersson@riksdagen.se.

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