

PROJECT ON BUSINESS AND POLITICS IN THE MUSLIM WORLD

Report on Global Islamic Finance

First Quarterly Report on Global Islamic Finance

January to March 2009

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BUSINESS AND POLITICS IN THE MUSLIM WORLD

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**Department of Politics and International Relations
International Islamic University Islamabad**

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BUSINESS AND POLITICS IN THE MUSLIM WORLD
REPORT ON GLOBAL ISLAMIC FINANCE

January 01-February 20, 2009

M. Ibrahim

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ISLAMIC DEVELOPMENT BANK NEWS

The IDB approved US\$ (348.15) million for new projects

Wednesday, 11 February 2009

Jeddah,9.2.09:

The Board of Executive Directors of the Islamic Development Bank (IDB), which concluded its 257th session at IDB headquarters in Jeddah today, approved US\$ (348.15) million for new projects and technical assistance in member countries and for Muslim communities in non- member countries. The development projects approved by the Board involve financing operations in favor of six member countries including Kazakhstan, Yemen, Sudan, Lebanon Indonesia and Egypt, in addition to four Grants from the Waqf Fund for Somalia and three Muslim communities in non member countries in Kenya India and Tanzania.

Details of approvals and items for information reviewed by the Board are as follows:

DEVELOPMENT PROJECTS

- US\$ 186 million Istisna financing for the reconstruction of the Road Section "Border of South Kazakhstan Oblast - Taraz" under the construction of Western Europe–Western China (WE-WC) Road Project – Kazakhstan.

- US\$ 21.25 million Installment Sale for the Silos Project at Al-Saleef Port – Yemen.

- US\$ 19.50 million Leasing financing for the Cotton Ginning Plants Project – Sudan.

- US\$ 15.50 million Istisna financing for the Development of Mkalles Roadway Interchange Project - Lebanon.

- US\$ 10.17 million Loan + T.A. Grant financing for the Re-scoping of the approved project under the title "Microfinance Support Project – Loan + T.A. Grant – Egypt.
- US\$ 83 million Loan financing for Integrated Community Driven Development Project which is a part of a broader national program aimed at empowering the population affected by Tsunami, Indonesia.

GRANTS AND SPECIAL ASSISTANCE PROJECTS FROM WAQF FUND

- US\$ 340,000 for the Construction of a Secondary School for Veterinary Medicine and Agriculture, Galcaio, Somalia
- US\$ 350,000 for the Expansion of Tawfiq Hospital, Malindi, Kenya.
- US\$ 190,000 for the Construction of a Secondary School for Muslim Education Society at Ograbraj Village, Andaman District, Andaman & Nicobar Islands, India.
- US\$ 330,000 for the Construction of the Amanah Secondary School, Ilongero, Singita, Tanzania.

APPROVALS BY THE PRESIDENT

The following are approvals made by the President of the Bank between the previous and present sessions of the Board:

- US\$ 300.000 T.A. (Grant) for the Second Health Project – Comoros.
- US\$ 180.000 T.A. (Grant) for CEDARE for increasing Adaptive Capacity to Climate Change in the Arab Region – Regional.
- US\$ 11 million Leasing (Supplementary Financing) for the White Nile Sugar Project – Sudan.

IDB Approves US\$ 83 Million for Integrated Community Project in Indonesia

Wednesday, 11 February 2009

The Board of Executive Directors of the Islamic Development Bank (IDB), approved, yesterday, about US\$ 83 million in favor of the PNPM – Integrated Community Driven Project in Indonesia. The project will directly benefit about (14) million people or (3.5) million households in (4871) urban villages in (14) provinces. Moreover, the Project, which is part of the overall National Program for Community Empowerment PNPM aims to reduce poverty by empowering communities, especially those who were affected by Tsunami, so that they will be effective development players and partners through a comprehensive integrated community-based approach.

The Board which concluded its 257th session at IDB headquarters in Jeddah, Saudi Arabia, recently, approved US\$ (348.15) million for new projects in six member countries, including Indonesia, and grants for four Muslim communities in non- member countries. Indonesia, which joined IDB in 1975 , is one of the founding members of IDB .The Bank's operations in Indonesia reached about (US\$ 1845.5) million for (174) operations including Development Projects, Special Assistance in addition to Trade Operations.

IDB Group with its overall operations since establishment having reached (US\$57) billion, is an international Islamic financial institution based in Jeddah – Saudi Arabia. The Bank which was formally opened on 20 October 1975, aims at fostering economic development and social progress of member countries and Muslim communities in non-member countries individually as well as jointly in accordance with the principles of Shari'ah, i.e., Islamic Law. The present membership of the Bank consists of 56 countries all of them are members of the Organization of Islamic Conference.

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Former Indonesian President Habibie Signs MoU with the Islamic Development Bank

Saturday, 07 February 2009

Jeddah, 1.2.09: A Memorandum of Understanding was signed today between the Islamic Development Bank (IDB) and the International Islamic Forum for Science & Technology and Human Resources Development (IIFTIHAR) for providing a general framework to facilitate cooperation between IDB and IIFTIHAR in promoting economic and social development through science and technology. The MoU was signed by H.E. Prof. Dr Bacharuddin Yusuf Habibie, the former Indonesian President and Chairman of IIFTIHAR, and H.E. Dr. Ahmad Mohamed Ali the President of IDB. As per the MoU, the IDB will provide assistance to IIFTIHAR to develop commercial properties through Waqf (Islamic Endowment) concept, and prepare feasibility study of the proposed Waqf Project by extending technical assistance. In addition the Bank will cooperate in

financing the construction of the IIFTIHAR's first Waqf Project in Jakarta. IIFTIHAR is a Non-Governmental Organization based in Jakarta, Indonesia. It was established in 1996 under the chairmanship of H.E. Prof. Dr. Bacharuddin Yusuf Habibie. The main objective of IIFTIHAR is to enhance science and technology and support capacity building in Islamic countries and communities. Among its membership, IIFTIHAR also has around 84 scientists from different Islamic organizations in the world.

Alaqa Fund Extends More Relief Supplies to the Gaza strip

Thursday, 05 February 2009

As part of the ongoing Alaqa Fund relief supplies to Palestine, 80 tons of medicine and medical supplies and 200 tons of flour were shipped to Gaza. The medicine and medical supplies were delivered to Al Shifa hospital through the Ministry of Health in Gaza, while the 200 tons of flour were shipped through the Egyptian Red Crescent to be distributed by the UNRWA. These shipments worth US\$25 million are part of Alaqa Fund relief assistance package. Part of the fund will also go towards rebuilding the ruined infrastructure in Gaza as well as the reconstruction of schools and hospitals. The Alaqa Fund has been created by the Arab Summit that was held in Egypt in 2000 and managed by the Islamic Development Bank (IDB). Its mission is to extend help to the Palestinian people in their time of need. So far US\$4 million in relief assistance packages have been extended by the Fund. These packages were disbursed through various institutions including the Egyptian Red Crescent, the Palestinian Ministry of Health and the AGFUND. More relief supplies including food and medical are on their way to the Gaza strip and will be distributed within Gaza through various other institutions such as Qatar Red Crescent, and the Jordanian Hashemite Relief and Philanthropic Agency.

The inaugural meeting of the Task Force for Islamic Finance & Global Financial Stability held in Kuala Lumpur, Malaysia

Wednesday, 28 January 2009

The Islamic Research & Training Institute (IRTI), a member of the Islamic Development Bank Group (IDB), today on 20-01-2009 organized the inaugural meeting of the Task Force for Islamic Finance & Global Financial Stability in Kuala Lumpur, Malaysia, under the chairmanship of H.E. Dr. Zeti Akhtar Aziz, Governor, Bank Negara Malaysia. The Task Force is chaired by H.E. Dr. Zeti Akhtar Aziz Governor of Bank Negara Malaysia (Central Bank of Malaysia) and comprises a number of eminent personalities and experts from member and non-member countries of IDB Group. The Task Force was proposed

during the Forum held by the IDB on 25th October 2008, in response to the Global Financial Crisis, and was endorsed by the Council of the Islamic Financial Services Board (IFSB) at its meeting held on 29th October 2008. It is mandated to assess the performance of the Islamic financial system in the current financial crisis and areas in which Islamic finance could contribute to promote financial stability. The Task Force has set up three working groups to examine the following areas:

- Promote greater understanding and appreciation of the universal values inherent in Islamic finance.
- Lessons learned from the current financial crisis and how Islamic finance needs to be developed to enhance the resilience of the Islamic financial system.
- Further strengthening of the international Islamic financial architecture.

A preliminary report will be discussed at the next meeting of the Task Force on 28th March 2009. The final report is expected to be completed in September 2009.

IDB & IFSB Meet to Reduce Liquidity Gap Faced by Islamic Financial Services

Wednesday, 28 January 2009

In a collaborative effort between the Islamic Development Bank and the Islamic Financial Services Board (IFSB), a meeting at IDB headquarters in Jeddah was held recently to discuss liquidity management issues in the Islamic financing sector. In a collaborative effort between the Islamic Development Bank and the Islamic Financial Services Board (IFSB), a meeting at IDB headquarters in Jeddah was held recently to discuss liquidity management issues in the Islamic financing sector. A number of key issues were discussed during the one day meeting comprising liquidity management, institutional development, and the role of regulatory and organizing bodies. The meeting called for the formation of a supervisory board that would work towards developing markets, products and institutions to enhance liquidity for the Islamic Financial Services. The board members will be chosen from the financial services institutions and supported by the IDB. The meeting also recommended the formation of a task force to develop a strategic and operational framework that would facilitate the development of the market for Shari'ah (Islamic Law) compatible products. It was highlighted that the role of these markets should not be limited to providing funding on just a national basis but should also look into dealing with liquidity at a local as well as an international level through an integrated framework. The meeting was attended by a large number of delegates from a number of central banks and international organizations including the World Bank, the International Monetary Fund, Shari'ah scholars, as well as a number of institutions that provide Islamic financial services. On behalf of the IDB President, Dr. Abdul Aziz Alhinai, Vice President of IDB assured the meeting that since its inception, the Bank had special interest for promoting and developing Islamic financial instruments. The IDB, along with a few of its strategic partners established a

number of institutions with the objective of laying the foundations for these Shari'ah compatible products.

The UK and IDB sign partnership agreement to increase cooperation on international development

Wednesday, 28 January 2009

The UK Department for International Development (DFID) and the Islamic Development Bank (IDB) signed a groundbreaking Memorandum of Understanding in Riyadh, Saudi Arabia. The UK Department for International Development (DFID) and the Islamic Development Bank (IDB) signed a groundbreaking Memorandum of Understanding in Riyadh, Saudi Arabia. This agreement recognizes DFID and the IDB common values and desire to work more closely together in promoting development and eliminating global poverty. Priorities for joint action includes accelerating action on global poverty, within the framework of the MDGs; accelerating delivery of basic services including health, education for all and water and sanitation; the global action on climate change and food security; employment creation in particular through private sector development; implementation of the Paris Declaration; and helping countries to develop their statistical capacity and allow comparison of various statistical data sources. This is the first time that a Memorandum of Understanding of this kind has been agreed between DFID and the IDB. It symbolizes the important role that Islamic and Arab institutions play in international development and the UK's desire, as a result, to develop stronger partnerships with these organizations. Mike Foster, International Development Minister, said: "I'm delighted the UK is working so closely with the Islamic Development Bank. "Partnership working like this is vital for good development, and we look forward to a long and fruitful working relationship with our colleagues in the IDB." Dr. Ahmad Mohamed Ali, the President of IDB Group, stated that he was "satisfied for building this partnership with DFID for a noble goal that targets the development of human resources in needy countries". DFID and the IDB have already agreed to co-finance a project in Al Howta City in Yemen which will bring cleaner water and better sanitation to 36,000 people. It is hoped that the Project will lead to further joint work in Yemen, the Middle East and other countries where both DFID and IDB have existing engagements. During his visit to Riyadh, Mike Foster, UK Minister for International Development, is also meeting with the Saudi Fund for Development (SFD) and Gulf Cooperation Council (GCC) Secretariat.

Alaqa Fund Provides New Relief Supplies for Palestinian People in Gaza.

Tuesday, 20 January 2009

As a part of the US\$ 25 million earmarked by Alqsa Fund for emergency relief of Palestinian people in Gaza strip the Fund announced that new relief supplies were handed over to the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) via the Palestinian Ministry of Health worth US\$ 500,000. The relief supplies announced by Al Aqsa Fund, which was created by the Arab Extraordinary Summit in Egypt in October 2000 and managed by the Islamic Development Bank (IDB), were composed of medicines, medical equipments and food stuff to be distributed in different areas of the strip. Since the start of the Israeli aggression on Gaza relief supplies provided by Alaqa fund were made in coordination with Palestinian Ministry of Health, Egyptian Red Crescent, Jordan Hashemite Charity Organization, Qatar Red Crescent and the Arab Gulf program for United Nations Development Organizations (AGFUND).

Al Aqsa Fund and the International Islamic Charity Organization Launch a Joint Relief Program for Gaza

Monday, 19 January 2009

Al Aqsa Fund and the International Islamic Charity Organization (IICO) will sign today in Kuwait a Memorandum of Understanding on a joint US\$ 5 million program for medical relief, rehabilitation and medication for the wounded and handicapped Palestinians in Gaza. The MoU will be signed by H.E Dr. Ahmad Mohamed Ali the President of IDB Group and H.E. Sheikh Yusuf Al-Hajji the president of IICO. Al Aqsa Fund, which was created by the Arab Extraordinary Summit in Egypt in 2000 and managed by the Islamic Development Bank (IDB), and The IICO will cooperate with other partners to support this program which will also provide mobile hospitals and rehabilitation centers to treat war victims specially children and women. On this occasion, H.E. Sheikh Yusuf Al-Hajji called on all relief Institutions which will be engaged in Gaza relief operations to join this initiative to help face the challenges of the huge humanitarian needs arising from the subversive war on Gaza. He added that there are more than (700,000) children who are living under threat of continued bombardment and lethal weaponry used in the aggression on Gaza where the health institutions are incapable of treating the victims. The signing of the MoU between Al Aqsa Fund and the IICO is a part of Al Aqsa Fund's efforts for establishing a broad partnership with different institutions to support the Fund's humanitarian operations in Gaza. Recently, Al Aqsa Fund approved US\$ (25) million to participate in emergency relief operations for Gaza. Consignments of more than US\$(5) million involving medicines, food stuffs and medical

equipments were dispatched to the Strip in cooperation between the Fund and Palestinian Ministry of Health.

IDB maintains top credit rating from Standard & Poor's for 7th Consecutive Year

Monday, 05 January 2009

The Standard & Poor's credit rating agency, for the 7th consecutive year, rated the future outlook of the Islamic Development Bank Group as "stable" in its annual report on international finance institutions issued during December 2008. The Standard & Poor's credit rating agency, for the 7th consecutive year, rated the future outlook of the Islamic Development Bank Group as "stable" in its annual report on international finance institutions issued during December 2008. The agency awarded IDB Group with its highest credit rating of (AAA) for the long term and (A-1+) for the short term, reporting that IDB's "capital position is extremely strong and its liquidity ample." According to the report released by Standard & Poor's, the ratings on IDB were based on IDB's strong capitalization, strong liquidity, a development-related asset portfolio that has performed well in relation to its large pool of borrowers, and an expected continued preferred creditor treatment. Currently, IDB has successfully received the highest credit ratings from all three leading rating agencies in the world – Moody's, Fitch, and now, for its seventh consecutive year, Standard & Poor's. The strong ratings allow IDB to mobilize resources from international financial markets at low costs. President of IDB Group Dr. Ahmad Mohamed Ali reiterated that the high ratings of IDB for its seventh consecutive year is due mainly to the robust financial position of the Bank as well as the strong support of its member countries. The European Parliament and the Basel Committee on Banking Supervision have also confirmed IDB's place in the list of zero-risk development institutions. The top rating by Standard & Poor's has had an enormous effect in consolidating confidence in IDB and its role in promoting the development process in member countries. The Standard & Poor's report stated that IDB's net income jumped by 32% during 1428H to SR 164 million from SR 123 million one year earlier, "mainly due to increased income from operation assets."

Board of Directors of Islamic Solidarity Fund for Development Approves US\$ 72.2 million for New Projects

Wednesday, 31 December 2008

At a recent meeting, the Board of Directors of the Islamic Solidarity Fund for Development (ISFD) approved an amount of US\$ 72.2 million for new projects in five member countries within the framework of its programs for vocational literacy, microfinance, communicable diseases (Aids & Malaria), water and sanitation, in addition to other Country Based Multi-Sector Programs. The Board which held its 8th meeting at the Islamic Development Bank Group headquarters in Jeddah under the chairmanship of H.E. Dr. Ahmad Mohamed Ali the Chairman of the ISFD Board of Directors reviewed a progress report on the Fund performance and its future plans. The new approvals cover different poverty alleviation projects in Bangladesh, Indonesia, Burkina Faso, Jordan, and Chad. The ISFD was officially launched in 2007 during the 32nd annual meeting of the IDB Board of Governors in Dakar, Senegal with a target capital of ten billion dollars. The Fund aims to combat poverty in member countries on basis of a decision of the Third Extraordinary Islamic Summit held in Mecca in December, 2005. Details of the approved projects are as follows:

- US\$ 18 million loan for improving rural households livelihoods through solar energy project, Bangladesh.
- US\$ 15 million loan for integrated community driven development project, Indonesia.
- US \$ 12 million loan for the Dangoumana Hydro-agricultural Development Project, Burkina,Faso.
- US\$ 6.05 million loan for the Microfinance Project, Chad.
- US\$ 11.2 million loan towards the Arboutchatak-Bitkine Road Project, Chad.
- US\$ 10 million for the Microfinance Support Program (MFSP), Jordan

IDB Board of Executive Directors Approves US\$ 2.5 Billion for its 1430H (2009) Operational Plan

Wednesday, 31 December 2008

The Board of Executive Directors of the Islamic Development Bank (IDB) approved US\$ 2.47 billion for its 1430H Operational Plan to finance various development projects, technical assistance projects and food security in member countries. The Board of Executive Directors of the Islamic Development Bank (IDB) approved US\$ 2.47 billion for its 1430H Operational Plan to finance various development projects, technical assistance projects and food security in member countries. The approval was made during the Board of Executive Directors' 256th meeting at IDB headquarters in Jeddah under the chairmanship of H.E. Dr. Ahmad Mohamed Ali, IDB President. The approved Operations Plan include US\$ 2.09 billion towards regular funding and US\$ 381 million to be allocated towards programs and projects in member countries. Additionally,

US\$ 357 million in loans will be allocated under the Islamic Solidarity Fund for Development in order to fight poverty. The 1430H Plan was a 15% increase in the rate of growth from the 1429H Operational Plan. During its meeting, the BED approved the total amount of US\$ 277 million for development projects and technical assistance in member countries, and grants from WAQF Fund for Islamic communities in non-member countries.

Details of project financing and trade operations approved by the Board are as follows:

DEVELOPMENT PROJECTS:

- US\$ 153.6 million Installment Sale for a Railway Tracks Project, Turkey.
- US\$ 52.65 million Istisna Financing for the Reconstruction of Irrigation and Drainage Network in Djizzakh and Syrdaria Regions, Republic of Uzbekistan..
- US\$ 37.3 million Istisna Financing for the Arboutachatak-Bitkine Road Project, Chad - US\$ 16.17 million Istisna Sale for the Dangoumana Hydro-Agricultural Development Project, Burkina Faso.

GRANTS FROM THE WAQF FUND:

- US\$ 125,000 for the Construction of Vocational Training Circle for Muslim Ladies Study Circle in Galle Town, Sri Lanka
- US\$ 115,000 for the Construction of Students Hostel Building for Jamiatul Islah Islalmia, Bhutaha Town, Nepal
- US\$ 150,000 for the Construction of Girls Hostel Building at Hazrat Munam Pak Talimee Public School, Maharajguni, Hazaribagh District, Jharkhand State, India.
- US\$ 300,000 for the Rehabilitation of Schools in Cyclone Nargis affected area of Myanmar
- US\$ 495,000 for the establishment of Medical Center for Central Islamic Organization of Guyana, Georgetown, Guyana.
- US\$ 330,000 for the Construction of an Islamic Training Center in Rejecca, Croatia
- US\$ 425,000 for the expansion of Mahardika Institute of Technology, Tawi-Tawi, Autonomous Region in Muslim Mindanano, Philippines.
- US\$ 360,000 for the construction of Mama Khadija Girls Primary School at Sumaili Village, Mangochi District, Malawi.

APPROVALS BY THE PRESIDENT:

The following are approvals of Technical Assistance made by the President of the Bank between the previous and present sessions of the Board:
TECHNICAL ASSISTANCE OPERATIONS AND OTHER PROJECTS:

- US\$ 491,000 grant, as institutional support for the Microfinance Project, Chad
- US\$ 350,000 grant, as institutional support, for the Microfinance Program, Jordan.
- US\$ 1 million grant for Arab Development Portal Project, The Coordination Group
- US\$ 500,000 grant for the Improvement of Wheat Crop Production in Arab Countries, Regional
- US\$ 1 million grant for the National Initiative for Human Development, Morocco

ITEMS FOR INFORMATION:

Operations approved by the President in respect of Technical Assistance, operations and other projects.

- US\$ 12 million loan for the Integrated Agricultural Development Project in Mauritania, in the framework of the Jeddah declaration which dedicates US\$ 1.5 billion for facing food price rise in the least developed member countries.
- US\$ 239,000 technical assistance grant for Developing a Geographic Information System (GIS) in the Capital Secretariat of Sana'a, Yemen
- US \$ 221,000 technical assistance grant for the Arab Urban Development Institute for Poverty Reduction and Capacity Building in Three Arab Cities, Regional
- US\$ 162,000 technical assistance grant for Capacity Building of the International Muslim Women Union, Sudan. - US\$ 200,000 technical assistance grant for a Study on the Status of the Awqaf in Al-Madinah Al-Munawwarah, Saudi Arabia

INTERNATIONAL FINANCIAL SERVICES UK NEWS

Islamic Finance Shows Resilience as London Consolidates Position as Key Western centre

09/02/2009

The global market for Islamic financial services rose by 37% to \$729bn at end-2007. In 2008, IFSL's *Islamic Finance* report notes that the industry has felt the influence of the credit crunch and downturn in the global economy - Sukuk issuance has more than halved and the value of equity funds has fallen. Islamic banks, however, have been less affected than many conventional banks as they are prohibited from activities that have contributed to the credit crunch, such as investment in toxic assets and dependence on wholesale funds.

London has been consolidating its position as the key western centre for Islamic finance in 2008. Two Islamic banks, Gatehouse Bank and European Finance House, have been granted licences bringing to five the number of fully Sharia compliant banks in the UK. Principal Insurance became the first Shariah compliant independent company authorised to offer Takaful to UK residents. In capital markets, four new exchange traded funds and two new equity funds were launched.

IFSL's report indicates that the UK's offering includes a total of 22 banks, far more than in any other Western country. Professional services are provided by 18 law firms and the Big Four accounting firms. A cumulative total of 18 Sukuk issues raising \$10bn have been listed on the London Stock Exchange, second only to Dubai. With 55 institutions offering educational and training products in Islamic finance, the UK has more providers than any other country worldwide.

Duncan McKenzie, IFSL's Director of Economics said "The UK has benefitted considerably from supportive government policies intended to put Islamic services on the same footing as conventional services. Evidence of London's growing role in Islamic finance is shown in the UK being the only western country to feature prominently, 8th with assets of \$18bn, in a global ranking of Sharia compliant assets by country."

Sir Andrew Cahn, UK Trade & Investment's Chief Executive Officer said: "Despite its origins overseas, Islamic finance has found a natural home in the UK. Though no sector is immune to the global financial crisis, Islamic finance has shown great resilience. It is important we continue to work with our Islamic finance partners to maintain our position as the leading western centre for Islamic finance service providers."

London emerges as leading centre for Islamic Finance

09/02/2009

A new IFSL report on *Islamic Finance 2009* estimated that the global market for Islamic financial services rose by 37% to \$729bn at end-2007. The industry has felt the influence of the credit crunch and downturn in the global economy in 2008. Sukuk issuance has more than halved and the value of equity funds has fallen. Islamic banks, however, have been less affected than many conventional banks as they are prohibited from activities

that have contributed to the credit crunch, such as investment in toxic assets and dependence on wholesale funds.

London is establishing itself as the key western centre for Islamic finance. The cluster of expertise in London is represented by banks, fund managers, international law firms, a secondary market in Sukuk and a growing market for retail mortgage business.

IFSL is taking a leading role in the promotion of Islamic financial services available from the UK through its Islamic Finance Working Group, involving the private sector and government.

WORLD BANK NEWS

Our economy is resilient – Ghana’s President Atta-Mills

Ghana’s President, John Evans Atta-Mills, delivered his first State of the Nation Address on February 19, 2009 and stated among other things: "I do admit that the picture I have painted of our economy is not flattering but let me hasten to add that this should not give cause for despair or panic. Our economy is resilient."

Meantime, the Center for Policy Analysis (CEPA) has launched its flagship annual State of the Economy Report in which it describes the current deficit situation as “a stubbornly high and widening deficit.”

World Bank Group Aiding Global Bank Recapitalization Effort

- World Bank Group assessing how it can help Eastern Europe
- Recapitalization Fund expected to have leveraged impact of \$75 billion to aid banks in small emerging countries
- Goal is to strengthen capital so banks feel confident to lend

February 23, 2009: Just six months ago, banks in central and Eastern Europe were flush with cash. Some thought they might even escape the credit crisis hitting the United States. But the region did not escape. Low interest rates and easy credit have given way to a dearth of liquidity and capital problems in the banks amid slowing global growth and trade.

World Bank President Robert B. Zoellick has called on Western European governments to support cash-starved Central and Eastern Europe, now seen as the new epicenter of the financial crisis. He says the region needs \$120 billion to recapitalize banks. For its part, the World Bank Group, including IBRD, IFC and MIGA, is working with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank to see whether, within the IMF’s macroeconomic reform plan, “we can help restructure and recapitalize,” Zoellick told the Financial Times.

“But we are going to need help from the European governments, because whether accidentally or not, part of the problem will be whether Western European banks withdraw liquidity from Central and Eastern Europe,”

Recapitalization Key Part of Proposed Vulnerability Fund

Bank recapitalization is a key element in the World Bank Group’s response to the global financial crisis. Other tools include funds to boost trade, safety nets, and infrastructure development, and providing political risk insurance to banks ([MIGA](#)). The Bank also has the capacity to triple lending ([IBRD](#)) this year to \$35 billion and has sped up delivery of its \$42 billion fund ([IDA](#)) for the poorest countries.

Zoellick is urging developed nations to contribute 0.7 percent of their stimulus packages to a special [Vulnerability Fund](#) for developing countries that can’t afford their own stimulus packages. “This is not a crisis of one region, it’s a global crisis. It needs a global solution,” Zoellick said. “That partly means you need to strengthen the developing countries to be part of the solution.”

New Fund Seeks Systemic Impact

The Bank Group’s [IFC](#) created the new \$3 billion IFC Recapitalization Fund last December to strengthen banks that may face liquidity problems in Asia, the Middle East and North Africa, Sub-Saharan Africa, Latin America and the Caribbean, and Central and Eastern Europe. Since then no region has proven to be immune to the far-reaching global crisis.

“Liquidity has completely dried up in certain countries in Africa. Non-performing loans have gone up,” says Jyrki Koskelo, an IFC vice president overseeing the fund. “Countries in Latin America are equally badly affected. It’s not as dramatic as in Eastern Europe, but it’s quite bad.”

The fund, expected to announce its first investments at the end of March or early April, currently has \$1 billion from IFC and another \$2 billion from Japan through the [Japan Bank for International Cooperation](#). The Bank Board has approved a cap of \$5 billion, but sub-funds to boost funding for specific regions may also be possible.

Fund Would Have Leveraged Impact of \$75 Billion

Koskelo says the goal is to strengthen important banks in smaller, poorer countries where relatively small amounts of money, along with IFC advisory services, could have an impact on the banking system and economy. Such banks could be domestic banks or subsidiaries of foreign banks such as those that dominate the sector in Central and Eastern Europe.

“We want to have a far-reaching impact on banking systems and help where we can actually make a difference,” says Koskelo. While the overall amount is small compared

to the depth of the global problem, IFC estimates the fund will have a leveraged impact of \$75 billion as others co-invest in it, and the banks receiving capital would be able to lend to their clients at greater levels.

“It won’t solve all the world’s problems, but it gives a signal that we have enough faith--and so do other partners who participate with us - that the markets eventually will return. And if we handle things properly, we’ll actually have a huge developmental impact in keeping markets moving,” says Koskelo.

Recap Money Will Be Distributed Globally

Under the Recapitalization Fund’s “diversification requirements,” no more than 10 percent of the fund can go to any one bank, 20 percent to any one country, and 25 percent to any one region. Banks don’t have to be in trouble to receive capital. The main objective is to provide capital to banks so they can continue to lend to businesses and individuals “who otherwise wouldn’t have that money,” says IFC Recapitalization Fund team lead Flavio Guimaraes.

“This is not just replenishing capital that the banks have lost as much as it is helping to strengthen capital of banks so they feel confident to lend and are better prepared for further deterioration of economic conditions.”

The fund will support the most solid banks and also test the effectiveness of the response, adds the fund’s Europe-based team leader Jean-Marie Masse, a veteran of the IFC’s successful effort to aid Korean banks during the Asian financial crisis in the late 1990s.

“What we will try to do is have a demonstration effect. If it is well-crafted, then others will join us and increase the impact of what we do.”

World Bank Managing Director Encouraged by Libya's Transition Vision

Tripoli, February 19, 2009 – World Bank Managing Director Juan Jose Daboub, completed his first visit to the country where he said that " *Libya has embarked on a critical transition to modernize its institutional and economic organization. We are encouraged by the Government's dedication to the transition agenda and look forward to support their efforts with a strengthened program and presence in the country,*"

During his meetings with the local and national authorities **Dr. Daboub** emphasized the importance of the ongoing program of modernization, and commended the Government for its strong commitment to reduce its dependence on oil revenues by diversifying sources of growth. Dr. Daboub also discussed Libya’s prospects with representatives

from the private sector they also addressed steps needed to improve the business environment. " I am encouraged to hear from private sector representatives their desire to work with the authorities on a common vision .We are pleased to work with the leadership of the country to put together a comprehensive program that will further strengthen public sector management, improve investment climate and private sector participation, while enhancing economic diversification." He noted.

Mr. Mats Karlsson, Country Director for Maghreb Region, accompanied **Dr. Daboub** during the visit and reiterated the Bank's commitment to support Libya's strategic priorities. "The World Bank Group, through strengthened partnership, is committed to supporting Libya's development programs based on the countries' priorities on this strategic path to development and regional integration", said Mr. Karlsson.

Dr. Daboub encouraged the Government to move forward with its transition program, and increase trade integration, and further infrastructure investments to strengthen the role of Libya in the region.

Dr. Daboub is the Managing Director in charge of the World Bank's operations in Latin America and the Caribbean, East Asia and the Pacific, and the Middle East and North Africa. Before joining the Bank in 2006, he served concurrently as El Salvador's Minister of Finance and Chief of Staff to the President.

World Bank Awards \$50 Million to Modernize Financial Markets in Central Africa

YAOUNDE, February 18, 2009 -- As part of an initiative aimed at encouraging and expanding a better governed financial market and more transparent, better regulated, and more competitive financial systems, the World Bank and the Economic and Monetary Community of Central Africa (CEMAC) signed a US\$50 million financial agreement on January 27.

Signed by Mary Barton-Dock, the World Bank's Country Director for Central African Countries, and Philibert Adzembe, head of the regional central bank (*Banque des Etats de l'Afrique centrale*, BEAC), the agreement consists of (i) the strengthening of the central bank ; (ii) encouraging regional investment financing (through the implementation of the

strategic plan of the Central African States Development Bank and the establishment of a fund providing funds to study sub-financings beneficiaries for regional integration purposes; (iii) improving regional economic policy coordination, financial sector supervision, and financial integrity; (iv) and project coordination.

The initiative will permit increased access to finance and greater availability of resources, particularly facilitating the re-utilization of surplus oil revenues in Central Africa.

The resulting project will support and strengthen regional institutions in order to promote stronger financial markets and the regional integration of Central Africa which is key for growth and poverty reduction in this area. The project also supports anti money laundering initiatives and training on micro finance.

“A specific emphasis will be put on management information systems between all the regional institutions as well as the two stock exchanges in the sub region in Douala and Libreville, financial systems and training,” Barton-Dock said.

The financial markets in the Central Africa sub region, which comprises Cameroon, Chad, Central African Republic, Congo-Brazzaville, Gabon and Equatorial Guinea, are shallow, with limited competition and few bank transactions. In addition, the insurance markets as well as the stock exchange are newly developing.

“The sub region has a lot of surpluses from oil revenues and a huge demand for investment and infrastructure but the two things are not helping each other,” Barton-Dock concluded.

It is expected that any petroleum surpluses will be re-invested in infrastructure.

Joining Forces to Face Growing Challenges of Mega cities

- Within a generation, the number of city dwellers worldwide is estimated to double – increasing by more than 2 billion people and straining mega cities with increasing crime, traffic accidents, air pollution, energy consumption and infrastructure demands.
- Especially during the current global economic downturn and financial crisis, the urban poor are hit the hardest.
- While addressing the many challenges surrounding mega cities, the World Bank has formed a knowledge-sharing partnership with the University of Southern California.

February 18, 2009 — With much of the developing world's population continuing to rapidly relocate from rural settings to cities, new thinking and practices are surfacing about how to handle the strains caused by the growing urban centers known as mega cities. Within a generation, the number of city dwellers worldwide is estimated to double – increasing by more than 2 billion people. The urban transition may offer people opportunities to improve their quality of life, but only if cities are well-managed by local and national policies – raising the question: How can mega cities make it work?

While addressing the multiple challenges surrounding this question, the World Bank has formed a partnership with the **University of Southern California**. Primarily meant as a knowledge-sharing relationship, experts in urban and development issues at both institutions have committed to link unique sets of scholarly research and knowledge networks. The idea is to connect two distinctly different institutions that still share many similar goals. The World Bank and USC both work, for example, to create and apply knowledge for social benefits, the university's **Vice Provost for Globalization Adam Powell**.

Powell and the **Dean of USC's School of Policy, Planning, and Development, Jack Knott**, along with others representing USC visited the World Bank headquarters in Washington, D.C., on Feb. 4, 2009 to kick off the partnership with a day of discussion and the signing of a memorandum of understanding. The ensuing discussion sessions covered major issues that face large towns and cities. Population centers with more than 10 million people, mega cities are faced with increasing crime, traffic accidents, air pollution, energy consumption, infrastructure demands, and risk of disease. Big cities are also often vulnerable to man-made and natural disasters, such as earthquakes, chemical explosions, and economic and social unrest.

In East and South Asia, one-third to one-half of the poor will reside in cities or towns by 2025. "The sheer pace of urbanization is actually overtaking the capacities," **Keshav Varma, director of East Asia Urban Development at the World Bank**, said during a morning discussion. He said that developing countries are particularly strained with the rapid urbanization, often leading to poor living conditions in slums. Especially during times like the current global economic downturn and financial crisis, the urban poor are hit the hardest, Varma said, adding, "It will hit the poor in the worst ways." Slums are expected to continue growing, which means more impoverished people will face crowded living conditions without basic infrastructure like sewage, sanitation and clean water.

Beyond the immediate effects on poor urban residents, cities have negative environmental impacts on a national and global scale. Cities consume two-thirds of global energy and are responsible for 70 percent of emissions. What can cities do? **Mark Bernstein, director of USC's Energy Institute**, said better efficiency and renewable technology can help reduce energy use. Policy and regulatory options can help lead to the construction of efficient buildings, better public transit and use of "green financing". "If we don't deal with the mitigation issue in cities, then we're not going to deal with climate change at all," said **Warren Evans, director of the World Bank's Environment Department**.

The many issues facing mega cities provide challenges for an academic institution like USC and an international development bank like the World Bank. USC professor and **chair of the Department of Environmental and Civil Engineering Jean-Pierre Bardet** said he sees the fledgling partnership as a way for engaging in further discussion, exchange of ideas and education between the two institutions. Additionally, advances in research by USC academics can benefit the World Bank in understanding evolving situations, Bardet said.

US\$8 million Emergency Grant to Rehabilitate Power Supply in Central African Republic

Washington, D.C, February 18, 2009 – The World Bank yesterday approved a grant of US\$8 million to support the Government of the Central African Republic to rehabilitate the country’s power infrastructure, balancing supply and demand in the capital Bangui, and helping the power utility to improve its financial and operational sustainability. During the recent energy crisis in June 2008, over half of the electricity supply was lost for several weeks, affecting Bangui’s water supply, which relies on electric power for pumping water around the city. Hospitals were also affected by the lack of power. The project will reduce the risk of such a crisis reoccurring in one of Africa’s poorest countries.

The goal of the project is to partially restore reliable power supply to Enerca (the electricity utility) customers in Bangui, including essential service providers such as the water company and hospitals, and to improve the financial and operational performance of the sector. In particular, the project will rehabilitate the Boali 1 and 2 hydropower facilities, a part of a much larger hydro-energetic power complex, thereby increasing reliable power supply. Boali 3, with a dam and structures prepared to house turbines, would present the last phase of this complex and investors for its reconstruction are now being sought, with some bilaterals and multilaterals showing interest. Meanwhile, the alternative is an increased reliance on small captive diesel generators which is much more costly. It is also not affordable to the country, most individual customers and is damaging to the environment.

Task Team Leader, **Moez Cherif**, underscored the emergency nature of the project: *“If no urgent measures are taken, the electricity crisis experienced last summer could recur in an even more severe form leading to high socioeconomic cost or even a humanitarian*

crisis in Bangui. Enerca lacks funds to perform vital maintenance and rehabilitation of its dilapidated infrastructure, and reengagement from the donor community is critical.”

The project has four key components: (i) the rehabilitation of existing hydropower stations; (ii) the introduction of more efficient lighting, by the distribution of Compact Fluorescent Lamps (CFLs) in order to reduce energy usage for lighting purposes by up to 10%; (iii) the introduction of pre-payment meters to improve revenue collection; and (iv) loss reductions through the replacement of old distribution lines with PVC insulated ones, which make it harder to steal power.

Country Director, **Ms. Mary Barton-Dock**, *“Our assistance is supplementing resources from Agence France de Developpement, the other donor responding to this pressing situation. We see this project as responding to the emergency situation in a way that lays the foundation for reform and future sustainability of the power sector in CAR.”*

This project will be closely coordinated with AFD (the French aid agency), which is already financing the partial rehabilitation of power generation in CAR. The estimated total cost of this project is US\$8 million. It will be entirely financed by IDA and will be implemented for three years. The grant is expected to close on June 30, 2012.

World Bank Board of Executive Directors Reviews Independent Inspection Panel Report on Coastal Zone Management Project in Albania

WASHINGTON, February 17, 2009—The World Bank Board of Executive Directors today considered a Management Report and Action Plan that responds to an independent Inspection Panel investigation of the Integrated Coastal Zone Management and Clean-Up Project in Albania, which was requested by families harmed by the April 2007 demolition of buildings in the Albanian coastal village of Jale. The Management Report acknowledges serious errors in project preparation and supervision, along with errors in communication with the Board of the World Bank, and presents an Action Plan for addressing those issues identified by the Panel.

Under the Action Plan, a series of measures will be undertaken with support by the Bank, including: a case-by-case legal review of the April 2007 demolitions in the project area, the appointment of an Independent Observer to monitor the legal review and report back to the Bank, and the payment of legal aid for the review of each of the Requesters' claims. Bank Management will also supervise completion of a social and vulnerability assessment, and the retroactive application of the resulting assistance packages for the poor and/or vulnerable affected by the demolitions. Management will report back to the Board in three months on progress.

“From basic project management to interactions with the Board and the Inspection Panel, the Bank’s record with this project is appalling,” said **World Bank Group President Robert B. Zoellick**, who has requested the Bank’s Acting General Counsel investigate matters, and who separately has referred matters to the Bank’s Department of Institutional Integrity (INT). *“We take very seriously the concerns raised by the Inspection Panel and we are moving promptly to strengthen oversight, improve procedures, and help the families who had their buildings demolished. The Bank cannot let this happen again.”*

In early 2004, the Government of Albania asked the World Bank for support in designing a framework that would enable the country to develop its coastline in a sustainable manner. In response, the World Bank worked with the Albanian authorities to put in place an *Integrated Coastal Zone Management and Clean-up Project (ICZMCP)* aimed at protecting coastal resources and cultural assets, while promoting sustainable land use, community participation and improved environmental conditions. The Project was approved on June 21, 2005.

Responding to an August 2007 request from families in Jale, the Inspection Panel investigated the World Bank’s compliance with its operational policies on the design, appraisal and implementation of the project and harm or potential harm to locally affected people. The Inspection Panel presented its report on December 1, 2008. The project was suspended by Bank Management on January 9, 2009, and remains suspended until a decision is reached either on project restructuring without the land planning activities, or full cancellation.

The **Chair of the Inspection Panel, Werner Kiene**, stated, *“While the Bank’s non-compliance with its policies in the present case is extremely troubling, the Panel applauds the leadership of the President and Senior Management in acknowledging errors and in initiating corrective measures once the Panel issued its Report.”*

The Panel found that the project was linked to the demolitions that occurred in Jale in April 2007; the project was not well designed and supervised; critical communications from Bank management to the Board were in error; and, Bank fact-finding efforts omitted key events and information. Management agrees with the Panel’s findings in these areas.

World Bank management deeply regrets these events. Management acknowledges a series of errors were committed throughout the Project cycle, including during Project

preparation, Board presentation, and Project supervision, as well as in the preparation of the first Management Response in September 2007 and the issuance of a Corrigendum to the Project Appraisal Document in September 2008. Management acknowledges that these errors are unacceptable and point to a serious breakdown of Management's accountability, responsibility and oversight mechanisms for the Project.

In addition, the Panel found that the Bank's policy on involuntary resettlement (OP/BP 4.12) should have applied to the preparation of the Southern Coast Development Plan (SCDP) and the Government's ongoing demolition program, and therefore the Jale families would be covered. At the time the Project was presented to the Board, Management judged that the policy did not apply to land use planning activities such as the SCDP. Management acknowledges that relevant provisions of the policy are ambiguous and need to be clarified. Management will review the application of safeguard policies in projects that support land use planning and will issue guidance to address environmental and social issues.

In view of the seriousness of the errors identified under the Project, the President of the World Bank asked the Acting General Counsel to undertake a review of the circumstances surrounding the issuance of the Corrigendum in September 2008. Building on this review, the President has asked the World Bank's Department of Institutional Integrity (INT) to lead an Accountability Review into alleged misrepresentation by Bank staff to the Inspection Panel and internal events surrounding the Project preparation, Board presentation, and Project supervision, and will take appropriate corrective action. Contrary to some press reports, no Government officials, members of the Project Coordination Unit, or Bank staff are under investigation by INT for corruption.

Kiene confirmed that the Inspection Panel's mandate "*does not include the investigation of allegations of corruption, and that it makes no judgment on their merits. The Panel investigates the Bank's compliance with its own operational policies and procedures. The Panel does not investigate the Borrower, and did not do so in the present case.*"

Board members noted that this investigative process demonstrates the value of an independent Inspection Panel in strengthening the Bank's accountability and effectiveness.

IMF-OECD-WB Seminar on the Response to the Crisis and Exit Strategies — Joint Statement

Experts from the IMF, the OECD, and the World Bank met on 4 February in Paris to exchange views and co-ordinate responses to the global economic crisis. OECD Secretary-General Angel Gurría launched the discussions, which were led by Carlo Cottarelli, Director, Fiscal Affairs Department, IMF; Danny Leipziger, Vice President,

Poverty Reduction and Economic Management Network, World Bank; and Pier Carlo Padoan, Deputy Secretary-General of the OECD.

Following an earlier meeting in September 2008 to consider the impact of the food and fuel crises on developing countries, the day-long consultations were part of the ongoing initiative to enhance inter-institutional co-ordination on pressing economic policy issues.

Discussions centred on the policy challenges posed by the deepening global financial turmoil and economic recession. Experts considered the implications of the evolving crisis for macroeconomic, fiscal, and social policy making in both advanced and developing countries, along with the priorities for regulatory and supervisory reforms.

In examining the crisis, a number of common concerns emerged, including about new vulnerabilities as the crisis affects emerging and developing economies more deeply.

In light of these dramatic challenges to the international community, experts discussed possible directions for action.

1. There is an urgent need to restore market confidence in the financial sector and stimulate the real economy; efforts on these two fronts must be pursued simultaneously and in a mutually reinforcing way in order to increase their impact on the real economy.

Despite large infusions of public funds into financial sectors in affected countries, market confidence has yet to be restored. Restoring banks' capacity to lend is essential to put economies back on the path to growth. Efforts to remove or isolate toxic assets must be stepped up in order to enable a sustainable recapitalisation of banks and a timely end to the credit crunch. Regulation, supervision and tax policy also need to be reviewed, and upgraded where necessary, to avoid a return to the unhealthy incentives and excessive leveraging that precipitated the crisis.

In parallel, there continues to be an urgent need for fiscal stimulus. The size and composition of fiscal packages should be consistent with each country's fiscal space and institutional capacity. The deepening of the downturn suggests the need for an increase in high-impact fiscal expenditures in the first half of 2009, with further support in the following quarters, by countries in a position to prudently undertake such spending. At the same time, embedding stimulus packages in a credible medium-term strategy that safeguards fiscal sustainability will also increase their impact in the short term. Due attention should be given to longer-term policy perspectives, including consideration of how stimulus policies could work to serve the objectives of climate-friendly and innovation-enhancing investment.

On both the financial and economic fronts, a strategy for an effective exit from short-term support will be needed, along with transitional measures.

Stronger co-ordination among those countries taking financial and economic measures would maximise impact, increase the effectiveness of demand-boosting measures, and avoid beggar-thy-neighbour effects. Looking ahead, broadening the coverage of regulation and supervision to the non-banking sector will also be necessary to avoid a recurrence of the regulatory competition – and resulting lowest common denominator regulation – which played an important part in the crisis.

2. There is a need for continued vigilance by governments against trade and investment protectionism. There has been a disturbing drop in trade volumes, exacerbated by the rising cost of trade finance. Furthermore, a drop in capital flows would signal a significant disruption in the traditional reliance of emerging and developing economies on foreign direct investment.

Nations would be hurt by the introduction of protectionist policies into their crisis packages, which would act to slow the global recovery. Efforts should also be made to ensure that financial support and stimulus measures are designed so that they do not impact negatively on competition.

3. There is deep concern over job destruction in all economies, along with the impact of the crisis on pension and health-care financing. In the face of rapidly mounting unemployment, experts underlined the need to support human capital formation and to avoid policies that would undermine recent reforms or reduce the labour supply. Resources for unemployment and market intervention will have to be managed

effectively. Efforts should aim to reinvigorate private sector activities and ease entry of new firms, including by facilitating access to credit, particularly for SMEs and innovative firms.

Experts underscored the need for measures to counter projected declines in income for the most vulnerable households, which threaten development gains, and risk creating millions of new poor. Priority financing and technical assistance should be made available to those countries undertaking targeted interventions to create employment, augment existing safety nets, and ensure basic service delivery for vulnerable populations.

The impact of the evolving crisis on emerging and developing economies should be monitored closely. Additional external financing and resources from donors for the most-affected and poorest countries should be a priority, especially in the light of reduced capital inflows for infrastructure and strains on the budgets of these countries which have been deeply affected by, but not responsible for the crisis. All available instruments of the international community should be considered in this regard.

4. International fora and multilateral institutions should be mobilised to improve the collective impact of policy responses, restore confidence and pave the way for a post-crisis regulatory architecture characterised by enhanced co-ordination. There is a need to find common ground on which to base the new architecture. The IMF, OECD and World Bank will continue to work together to share best practices and help governments find solutions to these challenges.

Update on the Impact of the Global Financial Crisis on Arab Countries

- In MENA, countries are dealing with the impact of the global financial crisis through a variety of mechanisms and policy responses.
- Since January 2009, senior World Bank management has participated in a number of regional events including most recently the Arab Summit for Social and Economic Development that was held in Kuwait.

February 2009 - In this interview, Auguste Kouame, Acting Chief Economist for the MENA region shares his views following recent trips to Egypt, Kuwait, Lebanon, Morocco and Tunisia.

What does the global financial crisis mean for Arab stock markets?

The impact of the global financial crisis on Arab stock markets varies significantly from one country to another. Early impact was visible in countries with strong links to global financial markets. On average, regional stock indices have fallen by about 50%. Stock

indices in Gulf Cooperation Council (GCC) countries saw declines of between 30-60% in the last quarter of 2008. In response, GCC countries announced various measures and rescue mechanisms to maintain liquidity and support their stock markets. In non-GCC countries, stock markets also experienced declines. But some indices – including Lebanon and Tunisia – were fairly resilient.

Have Sovereign Funds and the Banking sector been adversely impacted by the global economic downturn in recent months?

Sovereign funds have taken some losses on their investments in global financial institutions. Some early estimates by the Council on Foreign Relations suggest that sovereign funds with a high allocation into equities, emerging market and private equity may have lost as much as 40% in portfolio value between December 2007 and December 2008. On the other hand, sovereign funds with a fairly conservative portfolio experiences smaller declines in portfolio value. However sovereign funds continue to have significant reserves.

Across the Arab World, the banking sector has so far been little affected, mainly because of limited integration into global financial markets. However, many banks are being cautious in their lending decisions, and some countries are experiencing credit dry out.

To what extent has the access of Arab economies to external financing been influenced?

The global financial crisis had immediate impact on access to external financing worldwide. Borrowing spreads increased for emerging market sovereign and corporate borrowers. Arab countries were no exceptions to this. However, Arab countries have been far less severely affected by the credit crunch. With generally good balance of payments positions coming into the crisis or with alternative sources of financing for their large current account deficits, such as remittances, Foreign Direct Investment (FDI) or foreign aid, Arab countries were able to avoid going to the market in the latter part of 2008.

What is the potential impact so far on the real economy in the Arab world?

As discussed earlier, overall, most Arab countries have not been highly vulnerable to the financial impact of the crisis so far. However, the impact on the real economy is still unfolding, and can be significant in many countries. Governments with fiscal space going into the crisis will be in a stronger position to respond to the impact of the crisis on the real economy and households. However, going into the crisis, many Arab countries were running a fiscal deficit. Most Arab countries are already experiencing decline in export growth as a result of global economic downturn and/or lower oil prices. However, the economic impact of global slowdown will vary, depending upon initial fiscal and external account positions, as well as the degree of economic integration with highly impacted regions.

How would you describe the picture across the region in terms of transmission of the global financial crisis?

Countries across the region can be grouped in four categories for the sake of discussing the potential channels of transmission of the crisis to the real economy.

First, there are the GCC oil exporters with large financial capacity and small populations. This group is in the best position to absorb the economic shocks. They entered the crisis in exceptionally strong positions. This gives them a significant cushion against the global downturn. The greatest impact of the global economic crisis will come in the form of lower oil prices, which remains the single most important determinant of economic performance. Steadily declining oil prices would force them to draw down reserves and cut down on investments. Significantly lower oil prices could cause a reversal of economic performance as has been the case in past oil shocks. Initial impact will be seen on public finances and employment for foreign workers. But this is a distant scenario.

Second, there are the oil exporters with large populations and social needs but with less financial surpluses than GCC countries. Although oil exporters with significant oil revenues, these countries have large populations and large social commitments, which makes it difficult to adjust expenditures in a downturn. These countries entered the global financial crisis with weaker fiscal and external positions than GCC oil exporting countries. In this group, the crisis is likely to precipitate a decline in the trade surplus. Fiscal challenges are likely, as governments struggle to meet long-term social challenges such as unemployment. Households and jobs may be affected through reduced social and infrastructure spending

Third, there are the non-oil exporting countries with strong linkages with GCC countries through remittances, FDI and tourism, or with strong dependency on foreign aid, or both. These countries entered the crisis in the weakest position, both in terms of fiscal and external balances. Rapidly descending oil prices or sustained low oil prices make these countries very vulnerable to declines in remittances and FDI from the GCC. The persistence of the global economic crisis will also make them vulnerable to a decline in foreign aid. Household and government budgets are likely to be impacted simultaneously. Social pressures are likely to emerge, with shrinking fiscal space and weakening safety nets, and with the return of migrant workers

Fourth, there are the diversified countries with strong linkages with Europe in trade and tourism. They will feel the greatest economic impact through the depressed European demand for imports and tourism spending and will also receive less FDI from Europe. This Euro Zone effect will add to other relatively less important channels through which these countries might be impacted. These impacts will be directly felt in the SMEs sector, on employment and household income; public finances and the domestic banking sector will be impacted in a second round

What are some policy responses that MENA countries have initiated in the past few months?

Most governments are taking action to address the vulnerabilities identified in their economies. For example, GCC countries intervened early to support their banking systems and stock markets. They did so by easing monetary policy, securing the banking system's liabilities (including through deposit guarantees), and by injecting fresh capital where necessary. Saudi Arabia, for example, has announced an investment spending plan and provided capital to Saudi Credit Bank to secure credits to low income households. Kuwait is discussing a stabilization package. Egypt has announced a fiscal stimulus package geared toward job-creating infrastructure investment. In Jordan, guaranteed deposits in domestic banks were made and a fiscal stimulus package was announced. Tunisia measures to support domestic SMEs and employment were announced.

What else can be done to mitigate a potential employment crisis in Arab countries?

First, the global financial crisis may actually be an opportunity for restructuring poorly targeted safety net programs in order to free up resources for the poor as well as those who are deeply affected by the crisis. Second, as countries put in place stimulus packages, attention should be paid to addressing constraints and bottlenecks to long term growth. Investment in removing such bottlenecks can help create jobs and boost consumption in the short term while enhancing potential growth in the post crisis era. Third, attention should also be paid to coordinating fiscal stimuli across countries so that stimuli can be mutually reinforcing.

What is the World Bank Group doing to help?

The World Bank Group is responding on a number of fronts. IBRD lending has been expanded to respond to financing needs from our middle income clients: \$100 billion over next 3 years, representing a tripling of normal levels. The IDA 15 envelope of \$42 billion for the next 3 years will be frontloaded if needed by low income countries affected by the crisis. IFC has also scaled up its trade finance program to help developing country exporters get access to trade credit; it has scaled up its Technical Assistance and Advisory services to private investors; and it has created 3 new facilities to help private sector in developing countries in these difficult times: Bank recapitalization facility, Infrastructure facility, and Microfinance facility. MIGA will also use its guarantee facility to help secure FDI to our client countries.

In addition to financing, the World Bank group will remain close to our clients to gain a good understanding of the crisis' implications for each country. The World Bank's knowledge resources are being mobilized to support our client countries in their efforts to review scenarios and policy options, design policy responses, and implement reforms in these critical times.

\$500 Million Microfinance Facility Backs Lenders to the Poor

- Small and micro loans have significantly improved the quality of life for millions of poor people
- Microfinance institutions are under increasing pressure as foreign capital dries up or becomes too expensive
- New facility will provide up to \$500 million to more than 100 institutions in 40 countries, benefiting up to 60 million borrowers

February 12, 2009 —Devayanai used to work in the fields in the southern Indian state of Tamil Nadu. That was before she got a loan of 15,000 rupees (\$307) to buy a cow. Today she makes as much money selling milk as she did as a day laborer.

“Now I can work from home and be with the children.”

For millions of people around the world, being able to get a small or even tiny loan has made a big difference in their quality of life.

But some of the microfinance institutions that lend money to low-income people with no or little collateral have come under increasing pressure.

Once-plentiful foreign capital has dried up or become too expensive in the wake of the financial crisis sweeping the world.

In the next 18 months, microfinance institutions face a potential refinancing gap of at least \$1.8 billion, putting as many as 150 million microfinance customers, most of them poor people, at risk, according to the World Bank Group’s private-sector arm, IFC.

World Bank Group and Germany Commit Funds

In response, IFC and German Development Bank KfW launched a new microfinance facility February 5 to help institutions facing financing shortfalls.

The Microfinance Enhancement Facility is expected to provide up to \$500 million to more than 100 institutions in 40 countries.

The money will be used to help the institutions refinance loans and support lending to as many as 60 million borrowers.

IFC initially is contributing \$150 million and KfW \$130 million. They are working with a number of other partners as well as the German government to attract additional funding to the facility.

“Micro loans are among the most effective instruments in development,” German Development Minister Heidemarie Wiecek-Zeul said at the microfinance facility’s launch in Berlin.

“Microfinance institutions are doing great work around the world. We cannot allow the global financial and economic crisis to threaten the work of those institutions.”

Microfinance Still Resilient

Microfinance institutions have proven resilient in times of crisis compared to other financial institutions. They offer the only access to finance for millions of low-income people. As a result, customers tend to take their loans seriously and are very reliable payers.

IFC says the microfinance industry continues to perform well, with microfinance institutions maintaining healthy portfolios. One of the world’s largest investors in microfinance, IFC has over US\$1 billion in committed investments in microfinance and will reach US\$1.2 billion in FY2009, a year ahead of its target.

But the scale, depth and reach of the current crisis pose a risk, particularly for institutions that depend on financing from local and international banks. Institutions in Eastern Europe and Central Asia and Latin America and the Caribbean, especially, are feeling the crunch.

The portfolio at risk (percentage of borrowers 30 days delinquent on their loans) for the top 150 institutions has edged up from 1.2 percent pre-crisis to 2-3 percent now.

CGAP Survey Reveals Impact of Crises

In addition, low-income people suffering from high food and fuel prices have also been withdrawing savings and even struggling with loan repayments, says Elizabeth Littlefield, Director and CEO of the CGAP, a multi-donor partnership for microfinance housed at the World Bank. She cited an August 2008 CGAP survey of microfinance institutions.

“Although microfinance still has deep shock-resistant roots, there will be impact—both on the institutions and the clients they serve. The medium and longer terms effects of a global recession are likely to be punishing to poor people.” Littlefield said in November on the [CGAP blog](#).

Facility Part of Larger Effort

The microfinance facility is part of the World Bank Group’s [multi-pronged effort](#) to protect developing countries from the worst effects of the recession.

Those efforts include funds for bank recapitalization, trade facilitation, and infrastructure.

Bank President Robert B. Zoellick has also called for a [Vulnerability Fund](#) funded by 0.7 percent of developed countries’ economic stimulus packages.

The umbrella fund would speed resources to existing World Bank, United Nations and regional development bank safety-net programs and lay the basis for future development.

The new microfinance facility will provide “vital” funding” to ensure microfinance “continues to stimulate growth, create jobs, and overcome poverty in emerging markets.”

“It’s important that tightening of credit does not choke off small businesses and microfinance institutions,” says Zoellick. “Instead, we need to make a special effort to expand credit in these areas.”

World Bank Governors Approve Governance Reforms, Adding Board Seat for Africa

WASHINGTON, February 11, 2009 – The World Bank’s Board of Governors has 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.

“Expanding the developing world’s voice is central to delivering effective aid and promoting shared prosperity and development within a 21st Century economic reality,” said **World Bank Group President Robert B. Zoellick**. *“Adding another seat for Africa, reaching developing country majority on the Board, expanding developing country shares and laying the groundwork for further reforms represent real change. I’m pleased our reform process is on track. I encourage shareholders to take action now on governmental approvals of the voting share changes, and to continue their efforts at further, more ambitious, reforms.”*

These reforms were initially agreed at the World Bank Group’s Annual Meetings in October 2008, ahead of the Spring 2009 target. With the Governors’ approval, the amendment to the Bank’s Articles of Agreement to increase basic votes, which benefit smaller shareholders, now moves to the 185 member countries for final approval. In order to take effect the amendment must be approved by 3/5 of member countries with 85% of votes.

Specifically, this package of reforms:

- Creates an additional Chair at the Board for Sub-Saharan Africa, which means that developing countries can have the majority of seats on the Bank’s Board;
- Brings the share of developing countries in Bank voting power to 44%, aimed in particular at adding voice for the low income countries.

As a second step, shareholders have agreed that the Bank should undertake a comprehensive and intensive work program to realign bank shareholdings, moving towards an equitable voting power between developed and developing countries. Such a work program would also include voice reforms at the Bank's affiliated member organization, the International Finance Corporation (IFC). Work on the second phase is already underway.

Participation of developing countries' nationals in the staff and management of the World Bank plays an important role in the voice reform. Already nearly two thirds of Bank staff and 42 % of all Bank managers are from developing countries. Since **Zoellick** became World Bank Group President, 7 of his 9 senior appointments have been from developing countries.

Conditional Cash Transfers: Weathering the Financial Crisis

February 4th, 2009—A new report from the World Bank underscores the importance of cash transfer programs to help poor families weather the global financial crisis. Such programs offer qualifying families money in exchange for commitments such as taking babies to health clinics and keeping children in school. The World Bank expects to lend about 2.4 billion US dollars to start or expand cash transfer programs in countries around the globe. The report shows cash transfer programs can cut poverty both long- and short-term, particularly if they are supported by better public services like health clinics and schools.

Financial Crisis Highlights Need for More Social Safety Nets, Including Conditional Cash Transfers

WASHINGTON, DC, February 10, 2009 — Demand for well-designed safety net and cash transfer programs to assist poor families is growing across the world, as 2009 develops into a year of tough economic challenges—especially for households already hit by the recent food and fuel crises, and for governments concerned that the financial crisis could turn into a humanitarian one, according to a new World Bank report released today.

The report, ***Conditional Cash Transfers: Reducing Present and Future Poverty***, evaluates CCT programs that offer qualifying families cash in exchange for commitments such as taking babies to health clinics regularly or keeping children in school. It finds that these programs—where the responsibility for breaking out of poverty is shared by the state and poor households—can reduce poverty both in the short and long term, particularly when supported by better public services.

In response to the food and financial crisis, the World Bank expects to lend about \$2.4 billion this year to start or expand CCT operations in Bangladesh, Colombia, Kenya, Macedonia, Pakistan, and the Philippines. Total World Bank lending support for CCT operations now covers 13 countries, with technical support to both national governments and donors.

After early successes in South Asia and Latin America, CCT programs are now found on every continent. They operate in more than two dozen developing countries, as well as in several developed countries, including the United States. In countries such as Mexico and Brazil, CCT programs were introduced as part of larger efforts to make safety nets more effective, replace badly targeted subsidies, or integrate smaller programs. Colombia's nationwide Familias program has generated important and positive evaluation results and has received sustained support from the World Bank.

CCTs have also grown tremendously within countries. Mexico's *Progresa* began in 1997 with 300,000 households; its successor *Oportunidades* now reaches 5 million households. Positive evaluations by researchers encouraged this scaling up. In economic terms, the program's transfers account for about one-fifth of the consumption of the median recipient household.

"With their focus on mothers and young people and their ability to deliver critical health and education services, conditional cash transfers are a vital safety net for countries seeking to help those hardest hit by the financial crisis," said **Justin Lin, World Bank Chief Economist and Senior Vice-President, Development Economics.**

The report's analysis of more than 20 impact evaluation studies of these programs shows that CCTs have led to many positive results: higher household consumption; increased use of preventive health services; a reduction in child labor; and higher school enrolment.

"CCT programs have also helped modernize social sector management since they require coordination across many agencies," said **Ariel Fiszbein,** report co-author and Chief Economist for Human Development at the World Bank. *"Many have built in careful monitoring and evaluation that is invaluable in assessing results objectively and helping design better programs going forward."*

KEY LESSONS LEARNED

CCT programs should be seen as part of a social protection system. CCT programs are mainly intended to support poor households with children. They should be supplemented by other transfer programs such as social pensions or workfare to provide social protection to all vulnerable groups.

CCT programs have reduced poverty. In general, transfers have been well targeted to poor households, raising consumption levels among beneficiaries, and reducing the incidence of poverty by several percentage points. Concerns that participants might exit

the labor force or have more children as a result of receiving cash are not borne out-such effects were absent or very small.

CCT programs have increased the use of health and education services. For example, in Mexico the CCT program decreased the drop-out rate between 6th and 7th grade by 9 percentage points; while in Cambodia, two pilot programs have reduced the drop-out rate between these grades by 20 to 30 percentage points. In Pakistan, another program increased the number of 10- to14-year-old girls in school by 11 percentage points. CCT programs have increased the use of preventive health care services in Colombia, Honduras, Mexico, and Nicaragua by between 8 and 33 percentage points. Encouragingly, many of these improvements have been concentrated among the poorest households.

CCT programs cannot work in isolation. Using services more has not always translated into improved outcomes in health and education. For example, in Cambodia and Mexico higher school enrollment rates have not been matched by better performance in learning tests. To actually reduce child mortality or improve learning, CCTs need to be complemented by higher-quality education and health services and a strong focus on giving children a head start, such as via better nutrition or preschool programs.

"CCT programs enable households to make critical investments in child nutrition, health, and education," concluded **Norbert Schady**, report co-author and a Senior Economist in the World Bank's Development Research Group. *"But many obstacles remain at the household level, including a lack of information and inadequate parenting practices. CCT programs are now experimenting with new complementary approaches to help address these constraints."*

Egypt: World Bank Supports Ain Sokhna Power Project

February 10, 2009 - The World Bank's Board of Executive Directors on January 29, 2009 approved a loan in the amount of \$ 600 million to support the Ain Sokhna Power Project.

The project will support the Government of Egypt's expansion plan to meet the energy demand and ensure access to reliable and affordable electricity services – all prerequisites for sustained economic growth and achieving the country's social development agenda.

The Ain Sokhna Power Project aims to ensure continuous electricity supply to meet demand in a sustainable manner through investment in new generation capacity and to improve the sector's financial sustainability by providing technical assistance to Egyptian Electricity Holding Company (EEHC) to support sector revenue improvements.

The project will finance a 1,300 MW supercritical steam turbine power plant comprising two 650 MW steam turbine generators. The plant will be under the management of the East Delta Production Company (EDPC), one of EEHC's subsidiaries.

Regional Integration Recognized as Key to Infrastructure Development, but Challenges Remain

- African Union roundtable focuses on challenges to infrastructure development
- Infrastructure hurt by lack of funding, political commitment and policy
- Regional integration needed to push development forward

ADDIS ABABA , February 6, 2009 -- The role of regional integration in reducing exorbitant infrastructure costs in Africa was highlighted at a roundtable breakfast on Regional Integration held on Monday, February 2, 2009 in Addis Ababa. Co-hosted by Obiageli K. Ezekwesili, World Bank Vice President for the Africa Region and Donald Kaberuka, President of the African Development Bank, the meeting took place within the framework of the 12 th African Union Summit. The theme for this year's summit held in Addis was "Infrastructure Development for Africa".

During the meeting, which was opened by Kaberuka, Ezekwesili stressed the significance of regional infrastructure, and highlighted the challenges and opportunities that exist within the sector. A brief presentation on findings from the World Bank's new report, the African Infrastructure Country Diagnostic (AICD), outlined how Africa's inadequate infrastructure is holding back economic growth by two percentage points per capita each year.

Funding gap hurting infrastructure development

Among the issues the report outlined: the major challenges to infrastructure development in Africa as well as the need for regional integration as a means to overcome the challenges.

In Africa, the price of infrastructure services can often be double those in the rest of the developing world. By increasing the scale of production and the extent of competition, regional integration can substantially reduce those costs. Trading power through regional pools would reduce annual energy costs by US\$2 billion. One critical challenge the sector is facing is a large funding gap. Despite a commitment of substantial resources from both internal and external sources to the staggering US\$80 billion needed to address infrastructure development, there still is a US\$40 billion per year funding gap.

However, addressing infrastructure needs requires more than just money; it also requires improving policies and political will, according to the AICD report. Among the additional areas that require attention: political commitment, sound policies and wise

management. The funding gap could also be reduced by as much as half through the proper maintenance of the current infrastructure.

Heads of state emphasize need to raise infrastructure funds

Several participants responded and made remarks during the roundtable. The President of Malawi, Dr. Bingu Wa Mutharika, welcomed the International Financial Institutions (IFIs) focus on regional integration, and encouraged the World Bank and the African Development Bank to focus on regional programs, and not just national ones. This sentiment was echoed by President Jakaya Mrisho Kikwete of Tanzania, who indicated that more funds needed to be committed for regional projects because it is difficult to allocate funds from national projects. President Kikwete, whose term as AU chairman just ended, also said that African political unity cannot exist without the physical links needed to bind the continent together.

President Abdoulaye Wade of Senegal also emphasized the need to take concrete actions to raise funds that would help Africa address infrastructure challenges, and in particular finance the projects on Africa's priority list. President Wade has been actively advocating for funding for African infrastructure since he became Infrastructure Coordinator for NEPAD in 2000. He also pointed to the need for African countries to ensure the quality of infrastructure that is built, such as roads. "It is better to have 100 km of good roads than a 1000 km of low quality roads," Wade said. Liberian President, Ellen Johnson Sirleaf, highlighted the importance of infrastructure, particularly roads, in post-conflict countries and said it should be given priority since without them, key developments, such as education, agricultural marketing, or private sector development, cannot take place.

Apart from funding and policy challenges, there was also the issue of technical capacity when it came to implementing infrastructure projects. The Secretary General of ECOWAS, Mohamed Ibn Chambas, underscored the lack of capacity for project preparation at the regional level, and said that the establishment of Project Development Units to oversee the implementation of feasibility studies is absolutely critical. This point was reiterated by Amb. Olukorede Willoughy, who is currently Acting Chief Executive of NEPAD. Willoughy pointed to the lack of technical capacity and available funding to support project preparation as two critical obstacles to quicker progress on regional integration projects. Participants expressed the hope that the roundtable is a sign of change in the mind-set of IFIs to a greater emphasis on regional integration.

Government involvement key to regional projects

Rounding up the meeting, Ezekwesili acknowledged that there was a clear need for regional integration in the infrastructure sector. But the question now is how to address the need effectively, in particular by sequencing investments for maximum impact. Furthermore, it was evident that the Bank's International Development Association facility alone could not bridge the region's infrastructure funding gap. She said that further scaling-up was needed, and was hopeful that the Bank's new Vulnerability Fund would help narrow the gap. However, Ezekwesili reminded the Heads of States present

that governments must also do their part to create a more conducive environment and improve national policies surrounding the sector.

Adolescent Girls in Focus at the World Economic Forum

- Over 500 million adolescent girls and young women in the developing world do not get the same opportunities as young men.
- Where resources are scarce, young girls are often last in order for schooling and first in order for household work.
- And yet, as studies show, when given an opportunity, a girl is likely to reinvest about 90 percent of her earnings into her family's wellbeing.

For the first time in 39 years, the World Economic Forum (WEF) included a plenary session on adolescent girls in its 2009 annual meeting. In the midst of the worst global financial crisis for decades, are world leaders in their right mind to focus on girls? Yes, absolutely. Two decades of research have shown that investing in adolescent girls is a highly effective and sustainable poverty-reducing initiative. And yet, the potential of 500 million adolescent girls and young women living in developing countries remains largely untapped, at a loss for them, their countries and future generations.

Where resources are scarce, young girls are often last in order for schooling and first in order for household work. And all too often, when they attend school, they are forced to leave at a young age to marry and have children, wiping out chances to earn an income and fully contribute to the economy. The NGO BRAC estimates that in some regions of Bangladesh almost 90 percent of girls marry before age 18 and every year more than 1 million girls between 10 and 18 give birth. BRAC estimates a resulting loss of US\$1,233 in foregone income every year for every one of these girls—almost three times the gross national income per capita in Bangladesh.

On the other hand, when a girl is given the opportunity to study, she has a good chance of finding employment, earning an income and becoming financially independent, all of which improves her life. But the benefits do not end there: studies show that she is likely to reinvest about 90 percent of her earnings into her family's wellbeing, bettering the lives of those around her. She will also marry and have children later in life and have gained knowledge that allows her to keep her children healthy and educated. These immediate effects contribute to slowing population growth, which in turn impacts everything from health to climate change to the economy. In this way, investing in girls can be a key factor in breaking intergenerational cycles of poverty.

This is why world leaders put adolescent girls on their agenda, and why the plenary session “The Girl Effect on Development” was the fourth most attended event of the WEF’s 2009 Annual Meetings. The session brought together Nike. Inc CEO Mark Parker, Gates Foundation Co-Chair Melinda French Gates, World Bank Managing Director Ngozi Okonjo-Iweala, CARE President and CEO Dr. Helene Gayle, UNICEF

Executive Director Ann Veneman, Indonesian Minister of Trade Mari Pangestu, and Grameen Bank Founder and Nobel Prize Laureate Professor Yunus.

During the session, Ngozi Okonjo-Iweala echoed World Bank President Robert Zoellick's and Vice President Danny Leipziger's shared belief: "Investing in women is smart economics, and investing in girls, catching them upstream, is even smarter economics. If you invest in girls, if you educate girls, if you get girls into jobs, you solve so many problems." Mark Parker, whose company, Nike, Inc, established the Nike Foundation that invests in girls in developing countries, added that girls are "the part of the world's population that could make the biggest impact if supported with economic opportunities." The World Bank's Gender Action Plan and the Nike Foundation have been working together to improve life chances of adolescent girls in developing countries through the Adolescent Girls Initiative launched last October, please see box.

Professor Yunus, whose organization, the Grameen Bank, gives micro loans to women, gave a striking example illustrating the fact that girls will excel if only given the opportunity. One of his Bank's initiatives is Grameen Shakti, a company that sells solar energy in villages. Grameen Shakti recruited exclusively girls and trained them to build and maintain the solar energy systems in their villages. Not only have the girls gained the respect of their communities as "Grameen Engineers," but Grameen Shakti is one of the largest growing renewable energy companies in the developing world. Thanks to this success, Grameen Bank is planning a similar initiative in healthcare, where young women will be trained as nurses and paramedics to run community-based health management centers focused on both treatment and prevention.

As the session came to its end, Ngozi Okonjo-Iweala took the microphone. "Raise your hand," she said, "if you now understand and believe in why we must invest in girls." Everyone in the audience raised their hand, perhaps a hopeful sign for girls and, indeed, for a crisis-stricken world.

The Adolescent Girls Initiative

Last October, the Nike Foundation and the World Bank's Gender Action Plan, Gender Equality as Smart Economics, launched the \$20 million Adolescent Girls Initiative to smooth the transition from school to productive employment for girls and young women aged 16-24 by helping them complete their education, build skills that match market demand, find mentors and job placements, and by offering incentives to potential employers to hire, retain and train young women.

The launch event was co-organized by the World Bank and the Nike Foundation, with the support of donors, member countries, and private sector partners. The event also featured Ethiopian supermodel Liya Kebede, Beninese singer Angelique Kidjo, and New York Times columnist Nicholas Kristof.

“What drives the Adolescent Girls Initiative is the issue of women’s empowerment being one of fairness and decency,” said President Zoellick in his opening address. “Girls should have the same opportunities as boys to lead full and productive lives. Some of the research that we have done has emphasized that this is also a question of smart economics; investing in women yields very large social and economic returns, in this and in coming generations,”

The Initiative has its origins in President Zoellick’s six commitments to promote gender equality announced on April 11, 2008. One of these commitments was to “launch a work program with private and public sector leaders on ‘young women count for economic development’.”

Since then, the World Bank’s Gender action Plan and the Nike Foundation have been at work designing the first pilot in Liberia—due to launch in March 2009. With the partnership of the governments of Australia, Denmark, Norway, Sweden, the United Kingdom, the City of Milan other AGI projects will be developed in Afghanistan, Nepal, Rwanda, South Sudan and Togo. The initiative provides funding of US\$3–5 million per country.

As Financial Crisis Worsens, Geneva Summit Pushes for Faster Health Progress

Geneva, February 5, 2009—With global trade expected to shrink in 2009 for the first time in 27 years and world growth also likely to slide to 0.9 percent, health ministers, aid and development agencies, and NGOs meeting in Geneva this week have appealed to aid donors to follow through on their foreign aid commitments for health during the crisis, citing the need to push for even faster progress in strengthening weak health systems in Africa and Asia.

At a press conference to mark the start of a Geneva health summit, organized by the International Health Partnership and Related Initiatives (IHP+), ministers, agency officials and civil society groups said it was imperative during the financial crisis not to cut back on spending and aid flows for health at the very moment that countries were making progress in reducing preventable illness and deaths for millions of the world’s poorest people.

“This financial crisis could unravel many of the hard-fought gains in health over previous decades unless we all hold the line on the flow of development aid and health spending and then go even further to keep clinics open and services available,” said **Joy Phumaphi, the World Bank’s Vice President for Human Development, and a former Botswana health minister.** *“You end up with ‘lost years in health’ when aid donors and countries cut back on health during crisis because it can take 5-10 years afterwards for health services to recover to even pre-crisis levels.”*

The Geneva meeting was called to review the progress of the IHP+, an initiative set-up 18 months ago to mobilize foreign aid donors and health and development agencies behind a campaign to strengthen health systems in developing countries in Africa and Asia in order to dramatically improve their national state of health and economic performance.

“Health is not an expendable luxury item that can be dispensed with during a crisis. It is the very foundation for responding to the crisis. For me, one of the central messages of IHP+ is this: the buck stops here. Aid will not be fully effective until we find ways for better coordination, better alignment, and more accountability,” said **Dr. Margaret Chan, the Director General of the World Health Organization,** in her opening remarks to the Geneva summit.

Twenty-four countries and thirteen organizations have so far joined the IHP+, along with Rwanda and Uganda which became the newest members of the Partnership this week in Geneva. Ethiopia, Mozambique, and Nepal are the first countries to have signed IHP+ compacts which rally aid donors and other partners behind a single national plan to achieve the Millennium Development Goals for health; signed compacts then hold donors accountable for filling financing gaps in country health plans while countries pledge to fulfill agreed targets to improve people’s health.

“Ethiopia and other developing countries see the IHP process as a real opportunity to improve the quality and quantity of aid available to deliver results and bring improvements in the health of our people. We urge our development partners to work with us to find ways to maintain and scale up support in these difficult economic times,” **Ethiopia’s Health Minister, Tedros Ghebreyesus,** told the Geneva summit.

Speaking at the IHP+ press conference in Geneva, **Ivan Lewis, the UK Minister for International Development,** said that the British government remained committed to

achieving 0.7% of its gross national income for development aid by 2013, including spending £6 billion on health systems and services up to 2015 and £1 billion to the Global Fund between 2008 and 2015. This includes £450m over the next three years in support of national health plans in 8 IHP countries. The UK support for Mozambique's health plan has more than doubled since the country compact had been signed and now provides a total of £38 million between 2008 and 2012.

“The global economic downturn therefore reinforces the importance of enhancing the effectiveness of the resources we all put into health. The experience of the IHP so far—particularly in Ethiopia and Mozambique—demonstrates how it can be a powerful vehicle for achieving better health results for people in low-income countries, ” the UK Minister

Also on the press panel, **Norway's State Secretary for International Development, Håkon Arald Gulbrandsen**, stressed the need for global community to maintain and even increase aid for health and development, especially during a time of financial and economic crisis.

“Many countries rely on external funds for a large part of their health expenditure. We know that investment in health and social areas during a time of crisis improve recovery after a crisis or recession. Norway is committed to maintaining 1% of its gross national income for development assistance and will continue the high level advocacy and mobilization for all health MDGs with a special focus on women and children”

NGOs attending the IHP+ summit also appealed to aid donors and developing countries not to retreat from their health commitments during the financial crisis. This they said would imperil progress towards achieving the health MDGs which call for combating HIV/AIDS, tuberculosis, and malaria, eradicating extreme hunger and malnutrition, as well as reducing child mortality and improving maternal health.

“Civil society supports the commitment of the IHP+ to increase funding to developing countries and streamline the global aid-giving machinery, but we have to guard against any attempt to re-package existing aid commitments and pass them off ‘something new,’ ” said **Sue Perez, Policy Director for the Treatment Action Group**, and northern civil

society representative to the IHP+ , who is taking part in the Geneva IHP+ summit, along with other civil society members from OECD and developing countries. *“We must ensure that the IHP+ maintains its focus on real results that increase access to quality health services for real people.”*

A Communiqué with specific actions on how IHP+ partners will accelerate implementation of the IHP in 2009 will be agreed by the end of the meeting.

World Bank President and German Development Minister Launch Facility to Support Microfinance Industry and Protect Access to Finance for the Poor

Berlin, Germany, February 5, 2009—World Bank Group President **Robert B. Zoellick** and German Development Minister Heidemarie Wieczorek-Zeul today launched a \$500 million facility that will support microfinance institutions facing difficulties refinancing as a result of the global financial crisis and ensure that low-income borrowers in developing countries continue to have access to finance.

The Microfinance Enhancement Facility, created by IFC, a member of the World Bank Group, and German development bank KfW is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries. It will support lending to as many as 60 million low-income borrowers in many of the world’s poorest countries.

“Microfinance plays a critical role in providing financial services to poor people and fighting poverty,” said Zoellick. *“The Microfinance Enhancement Facility will provide vital funding and ensure that microfinance continues to stimulate growth, create jobs, and overcome poverty in emerging markets. I am most appreciative of the German Government’s support, through KfW, for this innovative facility at a time of economic danger for the developing world.”*

Wieczorek-Zeul, said: *“Micro loans are among the most effective instruments in development. Microfinance institutions are doing great work around the world. We*

cannot allow the global financial and economic crisis to threaten the work of these institutions. We have to ensure now that those that contributed least to the financial markets crisis do not suffer most from it. With the new facility, we are helping to ensure that people continue to escape the poverty trap through microfinance.”

Dr. Norbert Kloppenburg, COO KfW Bankengruppe, said, *"Supporting micro enterprises is highly relevant for development policy reasons because in developing and transition countries, the smallest and small businesses act as a motor for growth and for jobs while also laying the groundwork for safeguarding existing employment. With this facility we can set a strong example and quickly counteract the current downward trend in lending to microfinance institutions."*

The Microfinance Enhancement Facility is a short-to-medium term facility of up to \$500 million with initial contributions of \$150 million from IFC and \$130 million from KfW. The facility will be managed by BlueOrchard Finance, responsAbility Social Investments AG, and Cyrano Management, three of the industry's leading fund managers. Credit Suisse has been appointed custodian and administrative agent.

The microfinance industry continues to perform well with microfinance institutions maintaining healthy portfolios. However, some microfinance institutions face problems refinancing debt as a result of the global financial crisis. The Microfinance Enhancement Facility, created by IFC and KfW, is expected to provide refinancing to strong microfinance institutions.

About IFC

IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments. Our new investments totaled \$16.2 billion in fiscal 2008, a 34 percent increase over the previous year.

About KfW

KfW Entwicklungsbank is a competent and strategic advisor on current development issues. Reducing poverty, securing peace, protecting natural resources and helping to shape globalization are the main priorities of KfW Entwicklungsbank.

On behalf of the German Federal Government it finances reforms, infrastructure and financial systems for socially and ecologically compatible economic growth. As part of KfW Bankengruppe it is a worldwide financing partner, and it also employs funds of its own for development projects. KfW Entwicklungsbank knows about the potentials and problems in developing countries thanks to its close cooperation with local partners and target groups. It actively seeks to cooperate with German and International partners in order to further enhance the developmental effectiveness and efficiency of its activities.

Developed Countries Ignore Africa at Their Peril, World Bank Warns

WASHINGTON, February 4, 2009 – Rich countries must resist the temptation to slash foreign aid, even in the face of the worst global financial and economic crisis since the Great Depression, the World Bank has urged. The leadership of the U.S. government remains vital if pledges to double aid to Africa by 2010 made at the 2005 G-8 Gleneagles summit are to be honored, the Bank’s Vice President for Africa, Obiageli Ezekwesili, told a U.S. Congressional Caucus for Dialogue on the World Bank on January 30. A U.S. pledged contribution of US\$3.7 billion to last year’s record \$42 billion 15th replenishment of the International Development Association (IDA) – the soft lending arm of the Bank that provides grants and interest-free credits to poor countries – is pending authorization and appropriation before the U.S. Congress.

The Bank has argued that efforts by developed nations to stimulate their failing economies should not focus exclusively or too narrowly on national challenges, if a truly sustainable and global recovery from the crisis is to be achieved. It recently set up the IDA fast-track facility, providing an initial US\$2 billion in financing needed by the hardest-hit developing countries to maintain economic stability, sustain growth, address volatility, and protect the poor.

Given the enormous multiplier effect investments poor countries can produce and the untapped market potential, rich countries ignore market and investment opportunities in Africa at their peril, Ezekwesili warned. She cited the example of a telecommunication company from a European nation that turned down offers to invest at the onset of reforms in the Nigerian telecom sector, which comprised a mere half a million telephone lines when it was still a nascent market. However, when the sector began to prosper thanks to investments from less risk-adverse countries, the firm reversed course when it realized that it was missing out on an extremely profitable market, which by then had grown to over 60 million telephone customers.

Aid channeled through IDA provides financing that would otherwise be unavailable for the building of capable states, the strengthening of the rule of law and the establishment

of the ideal business environment for the private sector to flourish. Funding which targets improving infrastructure in Africa would help the continent expand its GDP growth by at least two percent and raise productivity by up to 40 percent, Ezekwesili explained.

Organized by the German Marshall Fund, which is dedicated to strengthening transatlantic cooperation, the event on Capitol Hill was attended by about 60 Congressional staff and members of the House of Representatives. The dialogue promoted by the Caucus is intended to help deepen understanding and build a global collaboration on the work the U.S. Congress does with partners such as the World Bank in tackling diseases, food insecurity and other crises, said Rep. Betty McCollum (D-Minn.), who co-chairs the Caucus with Rep. Kevin Brady (R-TX). Brady agreed with Congresswoman McCollum that the Caucus focuses on advancing the development agenda in a bipartisan manner. "There are no party hats here," she said. "There is just one hat; that of the United States."

Ezekwesili's remarks painted the picture of what she described as "the three faces of Africa". The first is that of a group of fast-growing, mineral-rich countries, whose GDP growth rivaled, matched or outpaced performance in developing economies prior to the global financial crisis. The second face, she said, is that of a group of fast-growing countries, with limited or no mineral resources but of sufficiently diversified economies. The third face is that of slow-growing or stagnating economies, mostly in post-conflict and fragile states.

Regardless of which "face" one chose to look at, the region as a whole was poised to turn the corner, according to Ezekwesili. A decade of robust growth averaging 5.7 percent was closer to where growth rates are needed to begin to put a dent on poverty. Much of that growth happened thanks in part to the fiscal space created by debt relief programs, which acted as a stimulus for investments in pro-poor programs.

Aid, she argued, is also more likely to be used more effectively in this era because the continent now has a leadership which is more committed to reforms, governing more responsibly, and making the right kinds of policy choices to use any resources in transparent, efficient and accountable ways.

Call for Action to Mitigate Effects of the Financial Crisis on Africa

ADDIS ABABA, February 3, 2009 – African economies, which were on the verge of turning the corner following more than a decade of faster and steadier economic growth,

now desperately need new funding to mitigate contagion from the global financial crisis, the World Bank said Tuesday.

“We call on rich countries to keep Africa in mind as they design programs to help their economies weather the financial crisis,” the **World Bank’s Vice-President for the Africa Region, Obiageli Ezekwesili**, said during a video press conference from Addis Ababa, Ethiopia, where she was attending the African Union summit.

Connected via video to journalists in 21 other African capitals, **Ezekwesili** said it was crucial for wealthier nations not to focus on “insular” domestic responses to the crisis. She reiterated a call made earlier by **World Bank President Robert Zoellick** for donor countries to devote 0.7 percent of the amount of their stimulus packages to a Vulnerability Fund for Africa.

She explained that the Fund would direct spending to projects that are urgently needed to avert a humanitarian crisis while mopping up unemployment, now building across Africa, as a result of the closure of mining operations, the suspension or cancellation of projects in sectors hardest-hit by a reversal of private capital flows, the fall in commodity prices, and the shrinking of revenue from tourism and remittances.

The Fund would also finance safety net programs, attending to the basic needs of the poorest of the poor: health, education, school feeding projects, basic inputs for farmers, etc. It would help sustain the flow of credit to small and medium-sized enterprises, which are the engines of growth, job and wealth creation.

The Fund, which the World Bank is asking the G20 summit expected to hold in London next April 2 to help set up, would support investments in infrastructure projects that can build a foundation for future productivity and growth in Africa and other poor countries.

To sustain support for aid and the kind of fresh funding proposed under the Vulnerability Fund, **Ezekwesili** urged African governments to stay the course of public sector reforms; to build more capable states; train and retain competent civil servants and run the public sector more efficiently.

Ezekwesili called on African governments to improve the efficiency of public expenditures, pointing to the need to scrap subsidies that benefit those Africans who do not need them, for those that are better targeted in favor of the poor.

She urged resource-rich countries, to improve adherence to transparency and accountability mechanisms; to ensure that revenue from natural resources are invested in sustainable poverty alleviation programs; and to diversify their economies beyond non-renewable sources of wealth.

“Countries like Zambia and other mineral-rich African nations must articulate a development strategy and make policy choices that would guarantee prosperity for ‘a Zambia without copper’,” **the World Bank Vice President** said, in reply to a question from a Lusaka-based journalist. She said citizens’ groups, the media and parliaments must all play more active roles in holding governments and donors accountable.

“The citizens of Africa are the continent’s most valuable asset,” **Ezekwesili** said, stressing the importance of tertiary education in building Africa’s skills to compete in a truly globalized economy. She said education, innovation and the technological leap-frogging offered by ICTs (information and communications technology) would help those African economies that invest in them to build the knowledge economy of the future.

“Those who can pay should pay but governments should provide scholarships and other forms of assistance to ensure that poor students who deserve to can attend university,” **Ezekwesili** said, in response to a question on tertiary education in Tanzania.

She acknowledged the need for governments to stick only to those things they do best – allowing space for the private sector to thrive in what businesses do. She cited **Ugandan President Yoweri Museveni** as praising the dismantling of an inefficient public sector monopoly in the telecom sector in his country for the rapid growth in telephone lines; from one million to eight million lines.

“Governments cannot abandon their regulatory role, especially when it comes to ensuring that their financial sectors work efficiently,” **Ezekwesili** said.

Some analysts have blamed ineffective regulatory mechanisms for the current global financial crisis.

Initially underestimated, contagion from what started as a crisis in the US subprime mortgage sector, poses a real threat of rolling back gains in poverty alleviation in Africa that had been fuelled by healthy growth rates. Although still fragile, that growth had clearly broken with a past marked by the economic collapse of the decade 1975-1985 and the stagnation experienced in 1985-1995. Ensuring that Africa also benefits from initiatives to stimulate economies in the North would help restore that growth and return Africa and the world to a path of prosperity.

World Bank Chief Economist Proposes Way Out Of Financial Crisis

KuwaitCity, February 3, 2009— Under the patronage of the Kuwait Bankers Association (KBA) and in cooperation with the World Bank Country Office in Kuwait, a symposium entitled, “The Global Financial Crisis and its Aftermath” was held Tuesday, February 3 at the Kuwait Chamber of Commerce. Speaking at the symposium was the World Bank’s Senior Vice President and Chief Economist, Mr. Justin Lin, who was in Kuwait attending the Global Development Network Conference.

While addressing distinguished members of the banking community and other professionals from the financial industry, Mr. Lin discussed the need for a global effort in dealing with the crisis and the importance of avoiding protectionism, which he says would have detrimental effects on the already suffering global economy. Mr. Lin further stated that lessons learned from past economic crises, such as the Great Depression and the 1990s Japanese financial crisis can help in the effort to avoid further or future collapse, but that it is important to remember that each crisis had its own unique set of characteristics, making a single formula hard to apply across the board.

Mr. Lin also addressed the issue of rising unemployment and the vital role governments can and should play in curtailing it. He stressed the need for governments to launch a coordinated effort that results in a global stimulus package, calling upon high income countries to set aside a small part of their stimulus packages in a Vulnerability Fund that would help finance stimulus packages in lower income countries with no fiscal space. “Low income countries have more bottlenecks than high income ones. If these bottlenecks are addressed today, the growth potential of lower income countries can be much increased once the crisis is over,” he said.

Mr. Lin then argued that when high income countries invest in addressing these bottlenecks, they can generate high returns for themselves in the long run.

Elaborating on another initiative proposed by the World Bank Group President, Mr. Lin called on Kuwait to invest one percent of its sovereign fund’s assets in infrastructure projects in African countries. Such investment could generate stable returns for the sovereign fund in the long term while generating employment and removing constraints to growth for the host country. Noting that Kuwait has been a generous contributor to development assistance in the past, Mr. Lin said that Kuwait can plan a leadership role in supporting the above initiatives.

Mr. Lin reiterated the need for governments to restore confidence in the financial system and to contain the rising unemployment rates, as the alternative may result in not only economic, but social and political instability as well. He urged governments to “take up leadership positions in responding to these challenges, otherwise the world will suffer from a long-term global recession that potentially could have been short lived.”

Moderating the session was Mr. Abdulmajeed Al-Shatti, Chairman of the Kuwait Bankers Association and main organizer of the event.

Will Cities Survive the Financial Crisis?

- As world markets suffer, cities in developing nations will inevitably feel the pain most sharply
- Cities capture the unique benefits of economic density and are important for the prosperity of nations, both in good times and in bad
- Policymakers should try to make cities work well instead of worrying about their size

February 3, 2009—Consider three cities in the developing world that will be hit early and hard by the worldwide economic downturn. Singapore may be the first Asian economy to enter a recession. Shenzhen in Southern China is preparing to deal with massive job losses, especially in contract manufacturing. In South India's Sriperumbudur, falling demand may mean that plans by companies such as Hyundai to expand plants are scaled back.

During the past two decades, Singapore, Shenzhen, and Sriperumbudur have served as connectors to regional and global markets, and have reaped enormous economic gains from these connections. Now, as world markets suffer, metropolises, cities and towns in developing nations will inevitably feel the pain most sharply.

“Crises bring pain to integrated places, but ultimately we know that places like Singapore, Shenzhen, and Sriperumbudur will weather the storm,” says Indermit Gill, Director of the World Bank’s World Development Report (WDR) 2009 and Regional Chief Economist for the Bank’s Europe and Central Asia region. “This is because urban centers are important for the prosperity of nations, both in good times and in bad.”

Subtitled "[Reshaping Economic Geography](#)”, this year’s WDR stresses that urban centers attract workers, capital, and ideas. The report illustrates how dense human settlements help nations exploit the economies from scale, specialization, and trade.

Through the lenses of history, geography and economics, the report sheds new light on questions such as: Is urbanization today unprecedented in its speed? Are the slums we see in developing countries evidence of failed urban policies? Should cities in the developing world be kept small? The answer to all three questions is the same: No.

Today’s rapid urbanization has precedents

The experience of earlier urbanizers such as Britain, France, the U.S., and Japan, as well as the most recent ones such as South Korea indicates that the pace of urbanization is most rapid at the early stages of economic development. “The same urban shift is being

repeated today in other places, as economies move from agriculture to industry, and some countries grow from income levels of \$300 to \$3,000. In fact, by the time a country gets to upper-middle income levels, a large part of the urbanization process has already happened,” explains Chorching Goh, WDR co-author and Senior Economist in the World Bank’s Europe and Central Asia region. So the rapid urbanization that we see today is not unprecedented. Britain had burgeoning cities in the 1800s. But it is true that the volume of urbanization is much larger today.

Just over 100 years ago, London, then the world’s largest city, had a population of 6.6 million. Mumbai, the largest city among low-income countries in 2000, had a population of 20 million. Mexico City is the largest city among middle-income countries with 22 million. And Tokyo—now the world’s largest city with 28 million inhabitants—is proof that size does not equal dysfunction. Today, the volume of urbanization is greatest in China and India. China has added almost 250 million people to its cities since 1985, India about 150 million. Notably, the period from 1985 to the present has largely been one of resurgence and poverty reduction rather than of decline, and so, the movement of people to cities should be welcomed and supported.

Cities capture the unique benefits of economic density

Some benefits, such as those from specialization and from various economies of scale, come only from economic density. Economies of scale are facilitated by settlements of different sizes. Singapore is a center of financial and technological innovation and learning. Shenzhen benefits from thick markets for labor and raw materials. And Sriperumbudur is large enough to facilitate internal economies of scale that come from big factories which require infrastructure and health and education services.

Instead of worrying about the size of urban settlements, policymakers should try to make these places work well. Jane Jacobs, a noted urbanist, wrote: “A metropolitan economy, if it’s working well, is constantly transforming many poor people into middle class people...Cities don’t lure the middle class, they create it.” Urbanization should be facilitated, not impeded.

But what about slums?

To some who have seen the film "Slumdog Millionaire", the notion of welcoming an influx of people to crowded cities might seem irresponsible. But history shows that urban transformation can work, if done right. A primary prerequisite: basic services such as schools, sanitation and security that reach everyone, whether in villages or towns or cities. Then migrants to cities come to seek economic opportunities, not social services. Also, connective infrastructure is needed to complement this bedrock of institutions. European cities have done this well; so has New York City. Finally, public interventions to remove slums have worked only after the right institutions and connective infrastructure were in place and functioning well.

According to the WDR, success comes to cities that follow three basic rules:

- *Work well with central and state governments.* Universal institutions such as property rights and basic education are the responsibilities of central governments, and roads and railways are often the ambit of state governments.
- *Work within the capacity limits of government.* Policy needs are simpler at early stages of urbanization, become progressively complicated as urbanization picks up speed, and are hardest for advanced urbanizers. Don't bias policies in favor of urban areas at the expense of rural livelihoods. And don't try to do at early stages of urbanization what is necessary only at later stages.
- *Keep expectations reasonable.* Don't expect the process to be clean, linear, and painless. Urbanization will be messy—it always has been. But it can be done through unifying institutions, connective infrastructure, and targeted interventions.

“The trick is in getting the timing right,” concludes Gill.

ASIAN DEVELOPMENT BANK NEWS

Asia's Local Currency Bond Markets to Expand This Year on Economic Stimulus Packages, ADB Report Says

10 February 2009

MANILA, PHILIPPINES - Emerging East Asia's local currency bond markets are expected to expand this year with several governments likely to sell debt to pump-prime their economies. Companies are also expected to turn to local markets to refinance or raise fresh funds, says the [latest issue of the Asian Development Bank's Asia Bond Monitor](#) (ABM). However, there are risks. Increased sovereign bond sales could raise yields, making issuance costlier. Also, investor concerns over sustained fiscal deficits could push up risk premiums and hurt sovereign credit ratings of some economies.

Companies face greater financing risks with borrowing costs remaining high and may get crowded out by higher debt issuance by governments. With Asia's financial firms huge buyers of government's bonds, debt sales need to be managed carefully to maintain financial stability. "The economic outlook remains gloomy," said Jong-Wha Lee, Head of the ADB's Office of Regional Economic Integration. "Several Asian nations will rely more on local currency bonds to finance their fiscal stimulus packages. This provides an excellent opportunity for the region to further develop a more dynamic domestic bond market."

Overall, emerging East Asia's local currency bond markets held up well in the face of the global financial storm, continuing to expand throughout 2008. By end-December, total outstanding local currency bonds were US\$3.7 trillion, 14.9% above the end-2007 level. The increase, however, was below the 17.6% annual growth rate in the third quarter of

the year. Foreign holdings of Asia's local currency government bonds appear to have held steady in most markets, indicating offshore investors have faith in emerging East Asia's local currency sovereign debt.

Total local currency bond issuance in the region fell 15.1% at the end of December versus the end of September and tumbled 59.0% versus the end of 2007. That was largely because central banks and monetary authorities no longer needed to issue paper for sterilization purposes given capital flowed out of the region in the second half of 2008 after hefty net inflows in the first half of the year.

Excluding issuance from central banks and monetary authorities, fourth quarter government bond sales in the region were up 5.8% over the third quarter total, showing that there remains investor demand for safe-haven securities. Gross corporate bond sales increased slightly on the quarter but fell on the year.

The market in the People's Republic of China - \$2.2 trillion in outstanding bonds as of end-2008 - continues as the largest emerging East Asian issuer, accounting for most of the growth in the region's local currency bond markets. Viet Nam, however, posted the fastest quarterly rate of growth in the fourth quarter of 2008 and also grew more than other countries for the year as a whole.

Emerging East Asia refers to the 10 members of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

India Shows Resilience During Current Economic Downturn, Says ADB President

10 February 2009

DELHI, INDIA - India has shown resilience during the current global economic downturn which has seen a slowdown in growth in regional economies, Asian Development Bank (ADB) President Haruhiko Kuroda said in Delhi at the end of a two-day visit. The global downturn may be deeper and the recovery take longer than earlier expected, he said. However, India's economy was expected to grow at around 7% in 2008. "Although lower than last year's 9% growth, this is nonetheless an impressive growth rate and a remarkable demonstration of India's resilience," he said.

During his two-day visit, he told delegates at the Delhi-based Research and Information Systems for Developing Countries' Silver Jubilee that the global financial crisis requires a global solution. Besides the immediate short-term actions to stabilize finance, longer-term planning to reform the regulatory and institutional framework for the world's financial systems was needed. An "Asian Financial Stability Dialogue" including finance ministries, central banks and other financial regulators could discuss and coordinate efforts to address the financial crisis.

President Kuroda also discussed issues of strategic relevance with senior government officials including the Home Minister, Mr P. Chidambaram; External Affairs/Finance Minister, Mr P. Mukherjee; Finance Secretary, Mr Ashok Chawla, and Deputy Chairman of the Planning Commission, Mr Montek Singh Ahluwalia, among others.

At a high-level conference on Sustainable Development, the ADB President told the 1,000 delegates, that while Asia must continue to grow, it has the responsibility to grow sustainably. Asia must urgently act in three priority areas of energy, cities and forests to limit greenhouse gas emissions, he said. He also announced a grant to support the "Lighting a billion lives" campaign sponsored by The Energy and Resources Institute. Since 1986, ADB has provided more than \$19. 2 billion of assistance through loans, grants, and technical assistance packages.

BUSINESS AND POLITICS IN THE MUSLIM WORLD
REPORT ON GLOBAL ISLAMIC FINANCE

January 01-February 20, 2009

M. Ibrahim

Presentation: March 11, 2009

ASIAN DEVELOPMENT BANK NEWS

ADB, Afghanistan Agree on New, Five-Year Strategic Partnership
March 2009

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MANILA, PHILIPPINES - The Asian Development Bank (ADB) and the Government of Afghanistan have forged a new Country Partnership Strategy (CPS) 2009-2013 that retains a sharp focus on investments that will bolster the country's energy, transport, and irrigation sectors. "In addition to being one of the poorest countries in the entire Asia and Pacific region, Afghanistan is confronted with a daunting set of development challenges," says ADB Vice-President, Xiaoyu Zhao. "Pervasive insecurity and the country's still-limited human capacity constrain effective implementation not only of the Government's ambitious reform agenda, but also of physical works that will create employment and economic growth."

Approved by ADB's Board of Directors in Manila today, the new partnership strategy is closely aligned with the Afghanistan National Development Strategy and focuses on a limited number of priority sectors. "The new CPS calls on ADB support for the provision of essential infrastructure including roads, power and irrigation facilities," says Craig Steffensen, Country Director of ADB's Afghanistan Resident Mission.

In a country where only 6% of the population has access to electricity, ADB's ongoing energy sector investments will expand the power grid by rehabilitating power substations and transmission lines, construct small to medium-sized hydropower plants, and improve power trading and interconnection with neighboring countries. ADB assistance in this sector will contribute to the government's goal of delivering electricity to 65% of urban households and 25% of rural households.

In the transport sector, the CPS calls for the completion of Afghanistan's "ring road" and the construction of new national roads, including links with neighboring countries. This will cut transport costs and raise the country's competitiveness profile. Improved road transport is tangible evidence of Afghanistan's reconstruction. Freight traffic has increased dramatically. Complementary investments in regional road corridors and regional trade policy and facilitation will increase the value of trade with neighboring countries from about US\$5 billion in 2005 to \$12 billion by 2016.

ADB support for Afghanistan's agriculture sector will focus on the rehabilitation of irrigation systems. ADB's assistance will increase by 20% the area under irrigation by

2010, which in turn will lead to significant increases in agricultural production and exports.

In addition to investment in economic infrastructure, ADB will continue to provide institutional and capacity assistance to improve institutional and development effectiveness. The focus will be on themes such as gender, on improved public financial management, procurement procedures, and corruption.

ADB President Calls on Governments, Private Sector to Do More to Address Sanitation Issue

3 March 2009

MANILA, PHILIPPINES - Asian Development Bank (ADB) President Haruhiko Kuroda has called for regional governments and the private sector to do more to help the 1.8 billion people in Asia who lack access to adequate sanitation. "There is urgency to this moment," Mr. Kuroda said in opening remarks at the Sanitation Dialogue at ADB's Manila Headquarters. He added that the issue of sanitation "poses enormous challenges to Asia's environment and public health."

The Sanitation Dialogue has brought together a wide range of municipal and national government officials from 17 countries in the Asia and Pacific region. While urging governments to give a greater priority to the issue, Mr. Kuroda stressed that sanitation, like water supply, cannot be sustained on government budgets alone and that more needs to be done to attract private sector investment. "Key to a change in strategy is the consideration of sanitation as a business," Mr. Kuroda said. "The economic returns of good sanitation have been demonstrated universally and we must find clever ways of translating them into effective and sustainable solutions for Asia."

ADB has committed 20% of its **Water Financing Partnership Facility** to sanitation, which will help provide 200 million people with sustainable access to safe drinking water and improved sanitation. Mr. Kuroda cited successful national sanitation initiatives in Indonesia, the Philippines, and Viet Nam, and said ADB would continue to prioritize the issue. "Our annual average lending pipeline for sanitation has increased from US\$300 million from the period 2003-2007 to \$710 million for 2008-2010," Mr. Kuroda said, adding that as a proportion of ADB's overall funding commitments, water and sanitation projects are expected to increase from an average of 8.5% in 2003-07 to about 17% in 2008-10.

Along with private sector participation in sanitation, the Sanitation Dialogue is focused on public health and environmental issues associated with poor sanitation and is exploring practical, affordable solutions to address them.

ADB's Mundra Mega Power Project Wins Two Key International Finance Awards

3 March 2009

MANILA, PHILIPPINES - The Mundra Ultra Mega Power Project, a key project financed by the Asian Development Bank (ADB) and other international and local financial institutions, has won two top-tier project finance awards, a sign of the success and importance of the project aimed at easing power shortages across India. Euromoney PLC's *Project Finance Magazine* and *Project Finance International*, a Thomson Reuters publication, have both given the Mundra project their Asia Pacific 2008 Power Deal of the Year award.

In 2008, ADB provided a US\$450 million loan to Coastal Gujarat Power Limited (CGPL), a wholly owned subsidiary of the Tata Power Company Limited, the largest private power utility in India. CGPL will build, own and operate the 4,000 megawatt Mundra project in the western state of Gujarat. "The project is crucial to helping solve the chronic power shortages that India is facing in its northern and western regions and doing so using a cleaner coal technology given India's dependence on coal in the absence of other practical alternatives," says Takeo Koike, Investment Specialist in ADB's Private Sector Operations Department. "We are glad that *Project Finance Magazine* and *Project Finance International* have recognized the importance of the project."

The project uses technology that improves the conversion efficiency of fuel to electricity by over 25% compared with conventional coal-fired power plants, which will both cut coal usage and significantly reduce carbon dioxide emissions. A risk participation arrangement between ADB and the Export-Import Bank of Korea (KEXIM) spurred \$1 billion in debt financing from the Republic of Korea, providing a significant contribution to completion of the project's financing. The plant is expected to be the first in a series of large energy-efficient power plants in India under the Government's "Power for All" plan to provide reliable and quality access to power by 2012. The project should also help to promote private investment in the energy sector by providing a good example of building and financing large-scale power projects through public-private partnerships.

Under its long-term Strategy 2020 framework, ADB is committed to supporting environmentally sustainable growth in Asia and to expanding its work with the private sector to promote economic expansion in the region. To that end, it aims to scale up private sector development and private sector operations to 50% of annual operations by 2020.

ADB to Bolster Efforts to Enhance Sub-regional Cooperation, President Says

28 February 2009

MANILA, PHILIPPINES - Strong sub-regional cooperation is crucial to helping Southeast Asia withstand the challenges of the current global economic downturn and the Asian Development Bank (ADB) will this year bolster efforts to cement links, said ADB President Haruhiko Kuroda, while speaking on Saturday to regional leaders at the 4th Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) Summit, as well as at the 5th Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN (Association of

Southeast Asian Nations) Growth Area (BIMP-EAGA) Summit. Both meetings were in Hua Hin, Thailand. "Regional cooperation becomes even more important as we seek to pursue joint approaches and pool our resources to cope with difficulties that we all face," he said at the IMT-GT Summit.

ADB will this year conduct further work to help develop three connectivity corridors in that sub-region. It will also kick off studies to facilitate trade, improve logistics and streamline customs with a view to enhancing sub-regional trade and accelerating growth in the participating provinces and states. ADB expects to unveil a plan later this year to involve other development partners and private investors in IMT-GT, a reflection of ADB's confidence in the region's potential.

BIMP-EAGA has made progress toward improving transport links, facilitating trade and developing economic corridors. Looking forward, the region could become a major player in the regional and global food market. "To increase productivity in the agriculture sector, increased investment is needed in infrastructure development, technology upgrading, and marketing support," Mr. Kuroda told the BIMP-EAGA Summit. Policies on trade in agriculture products also need to be reformed to eliminate non-tariff trade barriers. ADB will continue its technical and lending assistance to foster development in those areas, he added.

Indonesia, Malaysia and Thailand launched the IMT-GT program in 1993 while the BIMP-EAGA program was launched in 1994. The initiatives seek to expand opportunities for trade and investment in the two sub-regions to support sustainable economic growth. ADB is a development partner/advisor to the two cooperation initiatives.

ADB Commissions 2nd Water Security Outlook

27 February 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) has commissioned a second edition of its Asian Water Development Outlook (AWDO) in the run up to the Asia-Pacific Water Summit in 2010. AWDO 2010 will focus on how countries in the region are coping with a wide range of water security issues that pose critical challenges to ADB's mission to boost inclusive economic growth, reduce poverty, and bring about environmental change in the Asia-Pacific region. "From households and community halls to boardrooms and parliaments, the need for water security is now felt by all sectors and at all levels in our developing member countries," says Amy Leung, ADB's Water Committee chair. "Climate change and a continued rise in water-related disasters are making the challenge of providing water security all the more urgent."

The last AWDO report was released in 2007. It found that inadequate water governance led to a raft of adverse health and social issues that cost countries in developing Asia billions of dollars each year. AWDO 2007 also stressed that committed leadership and existing knowledge and technologies could help solve many water security problems.

ADB will work with a team of experts from regional water knowledge hubs and lead organizations of the Asia-Pacific Water Forum (APWF) to prepare AWDO 2010. Their guiding vision states that "societies can enjoy water security when they successfully manage their water resources and services to 1) satisfy household water and sanitation needs in all communities; 2) support productive economies in agriculture and industry; 3) develop vibrant, livable cities and towns; 4) restore healthy rivers and ecosystems; and, 5) build resilient communities that can adapt to change."

Organizations involved in the production of AWDO 2010 include the International Water Management Institute in Colombo, the International Centre for Water Hazard and Risk Management in Tsukuba, the International Water Centre in Brisbane, the International Center for Integrated Mountain Development in Kathmandu, PUB Singapore, the Institute of Water Policy at the Lee Kuan Yew School of Public Policy in Singapore, the Food and Agricultural Organization of the United Nations in Bangkok, and the United Nations Economic and Social Commission for Asia and the Pacific in Bangkok.

ADB to Help Raise Public Awareness on Climate Change

24 February 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) has approved a technical assistance grant to raise awareness through the media on the serious threat that climate change poses to hundreds of millions of people in the region. A grant of US\$450,000 from ADB's Climate Change Fund, together with \$271,000 provided by the Asia-Pacific Broadcasting Union (ABU), will go towards providing technical training and improving knowledge of broadcast journalists reporting on climate-related issues for national broadcasters in Asia and the Pacific.

Four workshops will be held in India, People's Republic of China (PRC), Philippines and Thailand, and it is expected that participants will generate more than 100 short television news features for national broadcast on issues such as climate proofing, disaster risk management and clean energy. The best of the news features will be promoted and distributed to regional and international television networks.

As part of the project, ADB and ABU will organize live television coverage and satellite feeds of stories and interviews from the High Level Dialogue on Climate Change in June 2009, and the subsequent Clean Energy Forum at ADB headquarters in Manila. They will also hold a workshop for radio journalists in a bid to reach communities without access to television, and will offer grants for documentaries and longer productions that provide in-depth coverage on the subject.

The adverse effects of climate change linked to a sharp increase in greenhouse gases are already being felt in Asia and the Pacific. Even if carbon emissions are capped at current levels the region faces a 10% reduction in crop yields by 2020, and rising sea levels that could displace millions of people living in coastal areas in Bangladesh, India, the Maldives and the Pacific Islands. In addition, about 1.2 billion people could face

freshwater shortages by 2020, and up to 34% of the region's coral reefs are likely to be lost by 2050.

ASEAN Stock Exchange Alliance Supports Regional Integration of Capital Markets – ADB

24 February 2009

MANILA, PHILIPPINES - Stock exchanges in the Association of Southeast Asian Nations (ASEAN) have agreed on a regional mechanism that will route orders from brokers directly to the local exchanges, says the Asian Development Bank (ADB). The ASEAN Common Exchange Gateway Alliance is expected to help pave the way for the future development of back-end linkages involving clearing, settlement, and depository arrangements, says ADB, which has provided technical assistance and worked closely with regional stock exchanges and regulators to develop the system. The ultimate objective is to link ASEAN capital markets by way of a single access point for investors and issuers to any of the exchanges, says ADB.

The agreement will initially involve five countries, each of which will list their top 30 stocks on a single computer screen, known as the ASEAN Bulletin Board. The five countries are Indonesia, Malaysia, Philippines, Singapore, and Thailand. Other countries are expected to join later. "This initiative will create the market infrastructure and regionally focused products and intermediaries to promote ASEAN as an asset class and allow distribution of listed products on ASEAN exchanges. None of the ASEAN exchanges is individually large, but together they will have the scale and liquidity to be globally competitive," says Jaseem Ahmed, Director, Financial Sector and Public Management Division in ADB's Southeast Asia Department.

The new alliance comes three weeks after ASEAN capital markets regulators agreed on a road map to fully integrate ASEAN capital markets by 2015. ADB has been helping regulators develop the integration plan by providing policy and technical support through the ASEAN Capital Markets Forum.

Asia Must Act Swiftly to Counter Economic Impacts of Aging Population - ADB Study

23 February 2009

MANILA, PHILIPPINES - Asia is set to become the oldest region in the world within decades and will have to take tough policy decisions to help it cope with the huge economic impact of an aging population, says the Asian Development Bank (ADB). In a newly released working paper entitled *Aging in Asia: Trends, Impacts and Responses*, ADB notes that Asia's share of the global elderly was 44% in 1950 but is set to rise to 62% by 2050. While the demographic shift is more advanced in developed economies such as Japan; Hong Kong, China; and Singapore, many developing countries in the region are aging at a faster pace.

Some countries such as Japan - where nearly two out of every five people will be 65 years or older in 2050 - are already facing the challenges of an aging population, such as a declining labor force and spiraling pension and health care costs. Developing economies, by contrast, are yet to face such problems, with their working populations set

to continue expanding sharply over the next two decades. This, however, provides only a narrow window of opportunity to deal with aging-related issues and policymakers need to take advantage of it, the study says. Only about 60% of young men and 40% of young women in developing Asia are employed, many in low-paid or insecure jobs, leaving the region facing the prospect of aging with low levels of income.

Policymakers need to consider a wide range of actions, the study says. Populations are aging at different rates so the region could benefit from greater cross-border movement in labor. Regional cooperation efforts through ASEAN+3 and similar alliances can play a key role in facilitating this process. Developing economies in the region need to adopt policies that allow them to take advantage of their swelling workforces over the next two decades. That could include boosting investment in education, improving workers' skill levels, and ensuring incentives are in place to attract more capital from neighbors that have surpluses. Developed economies, meanwhile, should aim to remove barriers to women's entry into the workforce and increase, or remove, the mandatory retirement age.

Overly generous, underfunded universal pay-as-you-go pension schemes could be overhauled, or be replaced by funded pension programs, financed by very long-term government bonds. Alternatively, policymakers could consider creating voluntary accounts or provident funds as supplements to pay-as-you-go schemes.

ADB to Help Asian Cities Provide Clean, Inclusive Transport

20 February 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) is to fund a pilot project that will help cities in the region develop transport systems that are better for the environment and are affordable to the poor. ADB will provide a project preparatory technical assistance grant of US\$2.8 million to fund studies for sustainable urban transport systems. The outcome will be transport solutions that could be replicated in cities around the region. Urbanization and the increasing use of private motor vehicles in Asia have led to serious traffic congestion, a rapid increase in greenhouse gas emissions, high levels of local pollution, and some of the highest accident rates in the world. The factors have also reduced economic opportunities and income for the poor, who typically live on the fringe of cities and struggle to afford high transportation costs.

“The challenge for Asian cities is to deliver an integrated urban transport system that will increase investments in public transport, non-motorized transport and pedestrian facilities and to arrest the rush towards private motorized transport,” says James Leather, Senior Transport Specialist in ADB’s Regional and Sustainable Development Department. The assistance will be used to identify policies and potential projects in the selected cities that will cut greenhouse gas emissions, improve public transport, increase personal mobility and pedestrian facilities, and restrain private vehicle use. “The lessons learned from this will be scaled up and scaled out to other cities across the region,” Mr. Leather says.

The preparatory assistance is part of ADB’s Sustainable Transport Initiative, which began in 2006. The initiative focuses on including energy efficiency and inclusive infrastructure

features in its transport projects, with the aim of slashing greenhouse gas emissions. The grant, which will be sourced from ADB's Climate Change Fund, will cover the total cost of the preparatory work. It is expected to last 23 months, concluding in December 2010. ADB will be the executing agency for the project and oversee the administration of all activities.

ADB Kicks Off Studies to Foster Deeper Asian Local Currency Bond Markets

18 February 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) will set the course for further development and integration of the region's local currency bond markets with a key study that kicks off in March. The study – which will take up to a year – will propose ways to harmonize the various regulations and practices to facilitate cross-border trading and investment in Asian government and corporate bonds. It will look, for example, at the role private placements can play in integrating the region's relatively small corporate bond markets. The study will also look at setting up a regional bond forum and recommend measures to strengthen self regulatory bond organizations in the region and, if necessary, push to establish new ones such as the International Capital Market Association in Europe.

"Breaking down the legal, policy and other barriers between the various bond markets and harmonizing standards is a key to creating a deep and active regional market that can support economic growth in Asia," says Avonechith Siackhachanh, advisor in ADB's Office of Regional Economic Integration.

ADB in December also started a 12-month study on bond settlement and clearing in order to improve the efficiency of cross-border arrangements now in place. That study will also consider whether a regional settlement body would be preferable.

Bond markets in Asia have expanded rapidly in recent years. Between end-2007 and end-2008, total outstanding bonds in ASEAN, People's Republic of China (PRC); Hong Kong, China; and Republic of Korea grew 14.9% to US\$3.7 trillion. However, regional cross-border issuance and investment is low with ASEAN+3 countries allocating only 2% of their bond investment to paper denominated in other regional currencies. In large part, that is because accounting, tax and national legal systems make cross-border investment expensive.

The studies are part of a May 2008 agreement by the finance ministers of the ASEAN+3 on a new Asian Bond Markets Initiative (ABMI) roadmap to foster further development in Asia's bond market. Deep markets are crucial to reducing dependence on bank loans and offshore markets that can create currency and maturity mismatches.

The March study is being funded by a \$950,000 technical assistance grant. The Republic of Korea e-Asia and Knowledge Partnership Fund is providing \$500,000 and Japan's Investment Climate Facilitation Fund (ICFF) is providing \$450,000 for that. The ICFF comes under the Regional Cooperation and Integration Financing Partnership Facility. A technical assistance grant of \$850,000 from the ICFF will finance the December study.

ISLAMIC DEVELOPMENT BANK NEWS

ISFD Approves US\$ 19 Million for Rural Development in Sudan and Combating Malaria in Chad

Wednesday, 25 February 2009

The Board of Directors of the Islamic Solidarity Fund for Development (ISFD) which held recently its 9th meeting at the headquarters of the Islamic Development Bank (IDB) in Jeddah approved two Projects totaling US\$ 19.4 million for rural development in Sudan and combating Malaria in Chad. The US\$ 12.6 million Water Harvesting Project for Agro- Pastoral Development in Al –Gadarif State in eastern Sudan, which was approved by the Board, aims at securing enough water during dry season for both agricultural and pastoral purposes to improve life conditions for rural population and increase their income. The Board was also informed about the Malaria Prevention and Control Project in Chad, which was approved by the Chairman of ISFD following the previous session of the Board, at the cost of US\$ 6.8 million. The Project is a part of the Pilot Program on Roll Back Malaria under IDB Vision 1440 H- Quick Wins Projects. The Board which was presided over by H.E. Dr. Ahmad Mohamed Ali the Chairman of the ISFD reviewed reports on the update and status of the ISFD and the Fund's partnerships with other organizations. The ISFD initiative goes back to the OIC Extraordinary Summit held in Makkah in December 2005 within the 10-year program of action adopted by the OIC. The IDB was entrusted with establishing the Fund. The Fund was officially launched in 2007 during the 32nd annual meeting of the IDB Board of Governors in Dakar, Senegal with a target capital of US\$ 10 billion.

WORLD BANK NEWS

Recovery Rides on the 'G-2'

By Robert B. Zoellick and Justin Yifu Lin

Originally published in the Washington Post, March 6, 2009.

China's economic growth will plunge in 2009. The United States is in severe recession. For the world's economy to recover, these two economic powerhouses must cooperate and become the engine for the Group of 20. Without a strong G-2, the G-20 will disappoint. We must address realities. The root cause of broader global payment imbalances is structural: over consumption in the United States and over saving in China. For the United States, the consumption boom was fueled by bubbles in stocks and housing. This was accompanied by a collapse in the U.S. savings rate. For China, the savings surplus is a result of structural distortions in the financial, corporate and resource sectors.

China's savings rates, at up to half of its gross domestic product, are much higher than in other countries. But this is not all because of workers saving money. Indeed, household savings in China are about 20 percent of GDP, similar to the rate in India. An unusually high amount of savings comes from large companies in China's corporate sector. Small

and medium-size enterprises, which employ 80 percent of workers, have minimal access to financial services because that sector is dominated by four large banks that primarily serve large companies. The smaller businesses' lack of access to financial services retards their growth, curbs employment and exerts downward pressure on wages. In effect, the skewed financial structure in China means that ordinary people and small and medium-size companies have been subsidizing big corporations and the new rich through low wages and interest rates.

A revaluation of China's currency -- a change in relative prices -- is not the primary tool for addressing these structural problems and the imbalances they have produced. In fact, economic diplomacy between the United States and China should focus on two other areas. First, the two countries should join forces to prevent a protracted global recession. Both countries have announced stimulus packages. The United States is again relying on boosting consumption, and China is again channeling funds to investment. While this is a natural response to the immediate concerns, over time the United States must boost savings and investment while China increases consumption, not just capacity. China is preparing a second stimulus, which should focus on creating purchasing power for poorer consumers as well as building "soft infrastructure" in service industries and "hard infrastructure" to reduce growth bottlenecks (which would in turn increase productivity). China could also clean up environmental damage caused by under pricing resources. For its part, the United States should persist with monetary, credit and asset restructuring policies to reboot the financial system so its stimulus has a chance to work. Both must resist protectionism and assist the vulnerable in poor countries.

Second, the strategic economic dialogue between China and the United States should focus on how to reduce the structural consumption-savings imbalances in both economies. To achieve its leaders' goal of building a "harmonious society," China needs to improve its income distribution. The next stage of Chinese reforms should boost social security protections, wages, service-sector efficiencies, and "green" resource-pricing and businesses -- all of which can increase consumption and imports. In particular, China should promote the local banking sector to better serve small and medium-size enterprises, including through microfinance lenders. It should open up oligopolies, such as in telecommunications, to competition. Further liberalization in trade and investment in services would make China's markets more competitive and productive, and it would reduce trade tensions. Without greater imports, China faces the risk of adjustment solely through a sharp and painful fall in exports. The United States, in turn, must rebalance saving and consumption. It cannot afford a return to the days of maxing out credit cards to finance unfettered consumption. It must regain control over expanding budget deficits, which are driven largely by entitlement spending. It also needs investments in education, research and development, and technology -- with continued openness to investment, goods, ideas and talented people -- to remain the world's leading economy.

Such adjustments would go a long way toward reducing the risk of global economic turmoil. There are strong mutual incentives: The United States is the largest destination for Chinese exports, and China is the largest foreign investor in U.S. government debt. The economic interdependency is stark.

The imbalances in the Chinese and U.S. economies can only be tackled gradually. Yet they must be addressed. A recovery based on boosting U.S. consumption and providing easy money financed by overseas savings would result in a repeat of mistakes, with dangerous consequences for global markets and politics. Even as the United States and China lead the way toward today's solution, they need to be shaping tomorrow's world economy.

Robert B. Zoellick is president and Justin Yifu Lin chief economist and senior vice president for development economics of the World Bank Group.

Transport Forum 2009: Invisible Force - Visible Impacts

March 5, 2009 - Almost one year ago, the World Bank launched its new transport business strategy for 2008-2012, *Safe, Clean, and Affordable... Transport for Development*. This strategy, developed to help partner countries establish methods for transport service delivery in a financially, environmentally and socially sustainable way, speaks to the themes of this year's Transport Forum, *Invisible Force – Visible Impacts*, planned for March 30th to April 1st, 2009 in Washington, D.C. This year's Transport Forum, which shall be comprised of global policy makers and practitioners, will discuss the convergence of transport and development goals to improve access, increase productivity, and support wider integration of a global economy. Through presentations and conversations among participating groups, the challenges and opportunities of transport policies and infrastructure services will be discussed with the goal of identifying strategies and solutions for future program design.

The Transport Forum seeks to meet an evolving development agenda, giving attention to emerging trends, such as trade globalization and urbanization of populations, and considering current events. Release of the new business strategy and launch of the Forum are well-timed to address concerns related to the global financial crisis and climate change. The construction, operation and maintenance of transport services contribute significantly to global trade and greenhouse gas emissions. The relationships between transport, trade, energy and the environmental cannot be overlooked, therefore.

In the East Asia and Pacific region, transport development has facilitated substantial trade-driven economic growth and poverty reduction. The priority now is to enhance the capacity and quality of transport infrastructure and services to sustain that growth and to extend these benefits throughout the region, including those living in remote areas.

In support of the Bank's overarching goal, the transport sector seeks to expand access and reduce poverty while minimizing negative financial, environmental and social impacts. "In a world with rising levels of greenhouse gases, poor road safety, and the too-frequent spread of communicable diseases along international routes, transport must be looked at anew," said *Katherine Sierra, World Bank Vice President for Sustainable Development*. "A coherent way forward requires innovative thinking and cooperation

among sectors to optimize the role of transport without jeopardizing personal and commercial mobility.”

Africa Regional VP urges a new generation to lead Africa's development

Washington, D.C, March 05, 2009 – The significant numbers of young, educated people who comprise the Africa Diaspora have a critical role to play in Africa's development. In the short-term this means a concerted and sustained effort to help buffer the effects of the global financial crisis, but in the medium and longer term this means harnessing Africa's growth potential, according to the World Bank's Africa Region **Vice President, Obiageli Ezekwesili**. Delivering the keynote address to Howard University's Second Annual African Business Conference over the weekend, the Vice President challenged the participants to be a part of the solution to Africa's future. The 2-day conference, attended by more than 250 students and entrepreneurs with an interest in business opportunities in Africa represented, in the VP's words, “*an opportunity for connectivities, ideas and new ventures.*”

Ms. Ezekwesili's remarks highlighted the fragility of a continent that, until the recent triple impacts of the food, fuel and financial crises, had been slowly but steadily growing “*better almost all the other developing regions, with the exception of China and India*”. That fragility, she said, threatened to throw Africa's development into reverse and, with it, the gains made to reduce poverty. Citing infrastructure deficits and lack of capital investments as impediments to making Africa a credible address for business, she warned that the impact of the financial crisis had already put major projects on hold across the region.

The focus of her remarks, however, was on the need for a new generation to bring their knowledge to bear on a region that offered great potential, in spite of some recent faltering steps. Overall, she said, the climate was far more positive than a generation ago and that “*positive movement human development indicators was encouraging, the list of democracies was swelling and that the number of people living on less than \$1.25 a day was slowly, but steadily, being reduced from its levels of 58 percent ten years ago to 50 percent today.*”

Noting the critical role that the Diaspora could and should play, she added that “*despite some sobering statistics on the exodus of professionals from many countries, what most perceive as a brain drain, I believe can become a brain gain when students such as you return with new skills and approaches.*”

Uzoma Nwagba, Co-Chair of the event, summarized the conference's goals: “*It was our ultimate goal to bring to bear the developmental changes, mostly championed by Africans themselves, that are spurring growth and renewed interest in Africa's business and economic landscape. We want Africans (both those on the continent and those in the*

Diaspora) to rise up and champion our development at a time like this. Oby's remarks were inspiring to the student population and her challenge to us was heard loudly and clearly."

Girl Power: Educating Girls in the 21st Century

- Secondary classrooms are the new gender fault-line where inequalities in both learning and earnings potential show up
- The quality rather than the level of education determines the economic success of individuals and economies
- Raising education standards yields measurable results in the long-term, once students enter workforce

March 5, 2009— In a speech to his fellow Ghanaians in the early 1900s, the visionary educator, Dr. J.E. Kwegyir Aggrey, declared, “The surest way to keep a people down is to educate the men and neglect the women. If you educate a man you simply educate an individual, but if you educate a woman you educate a family.”

The good news today is that girls have crowded into school in record numbers over recent decades. They have shrunk the gender gap with boys, and won significant economic, social, and development gains for themselves and their communities, says a new Bank report. Overall primary school enrollments for girls in poor countries jumped from 87 percent in 1990 to 94 percent in 2004, with also more girls than ever before now in secondary school, according to the report, *Girls' Education in the 21st Century: Gender Equality, Empowerment, and Economic Growth*.

Girls' education is a key to lasting development. The business case for continuing to invest in girls' education is beyond question, even in the teeth of the global financial and jobless crisis, write Joy Phumaphi, World Bank vice president for human development and Danny Leipziger, World Bank vice president for poverty reduction, in the foreword of the report. “Women's economic empowerment is essential for economic development, growth, and poverty reduction—not only because of the income it generates, but also because it helps to break the vicious cycle of poverty,” they write.

The surge in enrollments is the result of the cardinal importance that governments and donors have attached to girls' schooling over the last 20 years, says Mercy Tembon, country manager for Burundi, who is both a contributing author and the editor of the report. It is also the result of the successful reach of scholarships, stipends, conditional cash transfers (CCTs), female teacher recruitment, free text books for girls, and other gender-related policies, she adds.

High School: New Gender Fault Line

While disparities are fading at primary school, fewer girls than boys are getting to high school. Secondary classrooms are the new gender fault-line where inequalities in both learning and earnings potential gather force and persist, the report says. Especially

hostage to under-achieving within the secondary system are girls in Sub-Saharan Africa and South Asia, who live in small rural villages that are caught up in conflict, come from minority clans, or struggle with a disability. “Here’s the challenge—and it goes beyond getting girls into high school and making sure they show up every day with their homework done—it’s all about helping them to master the life and job skills that will transform their lives,” says Tembon. She urges greater use of scholarships and conditional cash transfers to drive both the supply and demand sides of female education.

Education in Conflict Areas

Approximately half the world’s 70 million out-of-school children currently live in conflict-affected and fragile states. The report offers insights into the challenges of educating children and teenagers in war-torn communities. Professor Jackie Kirk, a gender specialist who was killed last year in Afghanistan, contributed a chapter on girls’ education in the country. The report is dedicated in memory of Professor Kirk. Governments, development agencies, NGOs, and others cannot afford to row back on educating girls and boys under these dangerous conditions, no matter how challenging and difficult the task proves, Tembon says.

Economic Growth

The quality of education (what students know), not educational attainment (how long students stay in school), determines the economic success of individuals and economies, according to Eric Hanushek of Stanford University, a contributor to the report. This quality affects the education and income outcomes of both girls and boys. But raising education standards doesn’t happen overnight. Tembon and the Bank’s new Education Director, Beth King, point to the difficulties that OECD governments face in improving learning outcomes, let alone low-income governments that have to raise scarce education spending while managing volatile donor flows.

Benefits to Future Generations

Raising cognitive skills for girls and boys alike requires changes in schools that bear fruit over 20 to 30 years, according to the report. If reforms succeed, their economic impact is not generally felt until new graduates make up a significant share of the labor force. The social benefits of women’s schooling are also significant in developing countries. The report shows that a year of schooling for girls reduces infant mortality by 5 to 10 percent. Children of mothers with five years of primary education are 40 percent more likely to live beyond age 5.

When the proportion of women with secondary schooling doubles, the fertility rate is reduced from 5.3 to 3.9 children per woman. Providing girls with an extra year of schooling increases their wages by 10 to 20 percent. There is evidence of more productive farming methods attributable to increased female schooling, and a 43 percent decline in malnutrition.

Educating women has a greater impact on children's schooling than educating men. Young rural Ugandans with secondary schooling are three times less likely to be HIV positive. In India, women with formal schooling are more likely to resist violence. In Bangladesh educated women are three times more likely to participate in political meetings.

Improving governance for development

March 5, 2009 — Speaking at the Lee Kuan Yew School of Public Policy in Singapore last week on the topic of *Improving Governance for Development: New Frontiers in Reform and Remaining Challenges*, **World Bank Institute (WBI) Vice President Sanjay Pradhan** said that “*this is an area where it would be very useful to learn lessons from East Asia—from Singapore and others—because there are a lot of innovations here.*”

Pradhan broke down the complexity of the topic at hand by looking at it from both the supply and demand perspective; i.e., whether state institutions have the capacities and organizational arrangements, such as strong leadership, skills, and financial management systems, to deliver public goods and services; and the capacities of non-state institutions and accountability arrangements, such as elections, the media, and civil society organizations (CSOs), that enable citizens and firms to hold state institutions to account.

“The [governance] system breaks down if you have state capture, patronage and nepotism, and administrative corruption - bribes, etc...Trajectories vary across countries and it's path-dependent and many different trajectories can get you many different outcomes, both good and bad.”

The World Bank approaches governance by first identifying the key problems through cutting-edge diagnostics. “*These diagnostics help to hone in on where the problem specifically lies and what you can do about it.*” Pradhan gave the example of how diagnostics helped to tackle corruption in public funding of education in Uganda. The problem was identified by measuring the gap between money allocated to schools and the money actually received by schools. In 1995, 75% of these funds were leaked between allocation and receipt. A public information campaign in 1999 helped to bring the leakage down to less than 10% by publicizing the allocation figures so that schools and the public knew how much money was to be expected.

In terms of reforms, Pradhan says that there has been a lot of progress in management of public budgets, now that we see a shift in focus from input control to accountability for results. Across-the-board administrative and civil service reform, has, however, been less successful. “*We are finding we need to be much more modest, much more targeted,*” said Pradhan, citing the examples of countries such as Peru and Ghana, which, not having the administrative capability to implement comprehensive reforms of all institutions, which have taken a “strategic enclave” approach- reforming key functions and agencies selectively.

Pradhan also spoke about the challenge of public procurement and the headway being made in tackling that. With the pilfering of drugs purchased to treat HIV/AIDS, for example, Pradhan said that it's important to look at vulnerabilities in all areas of the supply chain and unpack it. If the problem is at the manufacturing stage with the production of sub-standard drugs, this can be tackled through random inspections. At the distribution stage, warehouse theft can be tackled with tracking and third party monitoring systems. *“Even in an area like drugs, there’s a system you can use to tackle it.”*

Civil society, the media, and the private sector play a very important role in providing the Demand-side pressures in holding public institutions to account, and these pressures need to be strengthened, said Pradhan. He cited the example of a CSO in Bangalore that surveys citizens on the bribes that they pay for services from public agencies, and then publishes the results. Over 9 years, this incentive for improved service delivery resulted in much greater public satisfaction with the agencies. Similarly, media in the Philippines published “lifestyle reports” on public officials, providing details on their properties, vehicles, and other assets; resulting in the resignation and suspension of public officials, and charges being brought against them.

On the role of the private sector, Pradhan said that *“companies today...are signaling that they know consumers care about the environment, about these issues, and they are certifying themselves as having good business ethics and capturing market share as a result.”* The Extractive Industries Transparency Initiative is one way that the private sector is helping to promote good governance; by publically declaring the royalties paid to the government. These figures are then verified by CSOs.

WBI is a key World Bank instrument for developing individual, organizational, and institutional capacity through the exchange of knowledge among developing countries. It designs and delivers learning programs that create opportunities for development stakeholders to acquire, share, and apply global and local knowledge and experiences. WBI works with policymakers, civil servants, technical experts, business and community leaders, parliamentarians, civil society stakeholders, as well as other learning institutions such as universities and local training institutes to foster the analytical, technical, and networking skills that support effective socioeconomic programs and public policy formulation.

Lower Middle-Income Countries Most Vulnerable to Oil Price Increases, says World Bank Study

The study, which covers 161 countries, also shows that policy makers can, to varying degrees, reduce the vulnerability of their countries’ economies to oil prices

WASHINGTON, March 4, 2009 — Lower middle-income countries were found over a 10-year period to be more dependent on oil imports than low-income countries, making

them more vulnerable to global oil price increases, according to a new study released by the World Bank's Oil, Gas, and Mining Policy Division. In fact, the study shows that lower middle-income countries were the most vulnerable group of all. The study, which is being presented during the World Bank's Extractive Industries week-long event, looks at the effects of changing oil prices and of net volumes of traded oil on countries' vulnerability to rising oil prices. The study, entitled *Vulnerability to Oil Price Increases*, includes data for 161 countries and covers the period 1996–2006.

The study defines vulnerability as the ratio of the value of net oil imports to gross domestic product (GDP). Vulnerability rises if oil consumption increases and oil production decreases per unit of GDP. For net oil importers, this percentage generally rose, thus increasing their vulnerability during the study period. By contrast, many, but not all, net oil exporters benefited from rising prices. However, the study also finds that different factors influence changes in vulnerability, the price of oil being just one of them. According to the study, four of these factors are related to oil consumption and three others are related to oil production.

The consumption-related factors include the changes in the price of oil, the share of oil in total commercial energy consumption, the ratio of commercial energy consumed to GDP (referred to as energy intensity), and the proxy real exchange rate. The production-related factors are the changes in the price of oil, the level of oil production, and the inverse of GDP.

“This study demonstrates that policy makers can, to varying degrees, reduce the vulnerability of their countries’ economies to oil prices by influencing import dependence and reducing the economy’s energy intensity, among other factors,” says **Somit Varma, director of the World Bank Group’s Oil, Gas, Mining and Chemicals Department**. *“Countries can also reduce the share of oil in energy by diversifying away from oil, increasing the efficiency of oil use, and reducing net demand for oil-consuming activities.”* The study, co-authored by Masami Kojima and Robert Bacon, also examined changes in vulnerability by subdividing the period under review into two sub-periods, 1996–2001 and 2001–2006. The oil price increase during the first sub-period was small, and correspondingly the change in vulnerability was also limited. On the other hand, change in vulnerability was greater during the second sub-period, which saw a 2.5-fold price increase in nominal U.S. dollars. Between 2001 and 2006 many net oil importers became more vulnerable whereas a number of net oil exporters became even less vulnerable than during the first sub-period.

“Given the higher levels of vulnerability experienced in 2006 and through mid-2008, it is increasingly important for governments to seek policies aimed at reducing oil consumption, particularly given the likelihood of oil prices rebounding once the world economy recovers from the current financial crisis,” explains **Lead Energy Specialist Masami Kojima**, one of the authors of the report.

Some other major results of the study include the following:

- Countries' vulnerability to the price of oil is unevenly distributed, with a substantial number of countries having experienced high levels of vulnerability by 2006.
- Vulnerability increased in nearly 80 percent of the countries, with several countries registering an increase of more than 10 percentage points of GDP.
- Most of the worst hit countries had high oil vulnerability in 1996.
- The 15 large economies with the highest per capita GDP in 1996 saw only moderate changes in vulnerability, an increase of only up to 2 percentage points of GDP.
- By contrast, some 14 countries that had the lowest per capita GDP in 1996 experienced higher vulnerability in 2006, in 2 of the countries by more than 10 percentage points of GDP.

Indonesia: Public Expenditure Support Facility (DPL-DDO)

WASHINGTON, March 3, 2009 - The following project was approved today by the World Bank's Board of Executive Directors:

IBRD Loan: US\$2 billion

TERMS: Maturity = 24.5 years; **Grace** = 10 years

Project Description: The main objective of the proposed loan is to assist the Government in addressing the potential adverse impacts of the ongoing global financial crisis on public expenditures during 2009/10. The loan will support the Government of Indonesia's efforts in the following policy areas: (1) reassuring financial markets and maintaining financial system stability (2) sustaining critical public expenditures while maintaining budget discipline and (3) facilitating private investment and supporting exports.

Kenya, Tanzania, Uganda and GEF Trust Fund Grant to the East African Community -Lake Victoria Environmental Management Project II (Adaptable Program Lending)

WASHINGTON, March 3, 2009 - The following project was approved today by the World Bank's Board of Executive Directors:

IDA Credit Kenya: US\$30 million

IDA Credit Tanzania: US\$32.5 million

IDA Credit Uganda: US\$27.5 million

TERMS: Maturity = 40 years; **Grace** = 10 years

GEF Trust Fund Grant: US\$7 million

Project Description: The project aims to: (i) improve collaborative management of the transboundary natural resources of Lake Victoria basin (LVB) for the shared benefits of the **East African Community** (EAC) Partner States; and (ii) reduce environmental stress

in targeted pollution hotspots and selected degraded sub catchments to improve the livelihoods of communities, who depend on the natural resources of LVB.

World Bank Supports Proactive Indonesian Response to Global Financial Crisis

Board of Executive Directors approves US\$ 2 billion loan to ensure continuity of public investments during global financial crisis and support market borrowings by the Government

Washington DC, March 3, 2009 – The World Bank’s Board of Executive Directors today approved a unique US\$ 2 billion Public Expenditure Support Facility for Indonesia, with a deferred drawdown option. The Indonesian Government can use these funds if market liquidity conditions continue to tighten and government access to international or domestic financial markets is limited.

The Indonesian Government has responded proactively and effectively to the current global financial turmoil by making arrangements that would help maintain the confidence of international and domestic markets, and allow the country to continue raising in the market the necessary funds for its development. This includes confidence-boosting policy measures, a stimulus package to reduce the impact of the crisis on the poor, as well as a back-up financing facility. The loan approved today is the largest component in a US\$ 5.5 billion contingent financing facility, which the Indonesian Government has designed for the budget years of 2009 and 2010, based on the estimated financing gap that could arise due to tightening market conditions. The governments of Australia and Japan, as well as the Asian Development Bank are also in active negotiations to each provide US\$ 1-1.5 billion to the facility.

“Indonesia has entered the global crisis from a strong position. Indonesia has shown resilience in the early stages of the crisis and has worked hard to contain the downside effects through preemptive and precautionary measures,” said **World Bank Country Director for Indonesia, Joachim von Amsberg**. *“Having to contend with a crisis and with risks that are not of its own making, the Government of Indonesia is implementing a substantial reform agenda aimed at calming financial markets and continuing public investments for growth and poverty reduction. We are very proud and happy to be able to support the Government of Indonesia in its management of the crisis impact. We are providing this extraordinary support to a country that is managing the impact of the global crisis in a very effective way.”*

The Public Expenditure Support Facility reinforces Government policies to: (a) reassure financial markets and maintain financial system stability, (b) sustain critical public expenditures during the international crisis, and (c) crowd in private investments and support exports through investment climate reforms. Government can access the resources from the facility to finance important social and infrastructure programs if and when markets do not provide the needed financing at a reasonable cost. The facility will thus ensure that Government does not cut back critical public services and investments at a time when these are most needed because of the global economic crisis and its impacts.

“Through prudent fiscal policies, Indonesia has seen the most dramatic decline in debt-to-GDP ratio of any major economy in the region, dropping from 55 per cent in 2004 to about 30 percent in 2008. Therefore, Indonesia can afford to maintain or even expand public spending during the international crisis. The strong macroeconomic management of previous years is now paying off,” continued **von Amsberg**.

Reshaping Economic Geography: World Development Report 2009 Presented in Central Asia

On February 26-27, 2009 the World Bank Country Offices in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan hosted the launch of the World Development Report 2009 (WDR) – one of the major World Bank annual publications. Videoconference linked five cities in Central Asia, so the audiences in Almaty, Astana, Bishkek, Dushanbe, and Tashkent could interact with the team of WDR authors and among each other. Overall, the event hosted 116 guests including representatives of government agencies, city municipalities, donor institutions, embassies, academia, think-tanks, mass media, NGOs, and students.

The 2009 edition of the WDR is named “Reshaping Economic Geography”, and highlights today's biggest development challenges at the local, national, and international levels. This report looks at the economic growth and development through the prism of three geographical dimensions: *Density, Distance, and Division*. It argues that the most effective policies for promoting long-term growth are those that facilitate geographic concentration and economic integration, both within and across countries.

The WDR team, who spoke from World Bank Central Asia Regional Office in Almaty, was represented by **Mr. Indermit Gill**, the Report’s Director, Chief Economist for Europe and Central Asia, **Ms. Chorching Goh**, Senior Economist, and **Mr. Souleymane Coulibaly**, Economist. The team made presentations on main messages of the WDR 2009; domestic integration, urbanization, and territorial development issues; international integration and WDR framework for regional integration policies. The documentary video “Reshaping Economic Geography” was also demonstrated during the event.

“Production concentrates in big cities, leading provinces, and wealthy nations. Half the world’s production fits onto 1.5 % of its land. But economic concentration leaves out some populations,” said **Mr. Robert Zoellick**, the World Bank President in his foreword to the WDR 2009. *“A billion people, living in the poorest and most isolated nations, mostly in Sub-Saharan Africa and South and Central Asia, survive on less than 2 % of the world’s wealth. These geographically disadvantaged people cope every day with the reality that development does not bring economic prosperity everywhere at once; markets favor some places over others. I expect that Reshaping Economic Geography will stimulate a much-needed discussion on the desirability of “balanced growth,” which has proved elusive. And by informing some important policy debates, it will point the way toward more inclusive and sustainable development.”*

The main conclusion of the WDR 2009 team was that the changes along these three dimensions – density, distance, and division – are essential, and should be encouraged. Another important conclusion was that for rapid and shared growth, governments must promote economic integration. Integration should be the pivotal concept in the policy debates on urbanization, territorial development, and regional integration.

“Three main geographic transformations are needed for progress. The first is higher densities as no country has grown to high income without urbanizing. The second is shorter distances because growth seldom comes without the need to move closer to density. The third transformation requires fewer divisions as growth seldom comes to a place that is isolated from others,” said **Mr. Indermit Gill** during his presentation.

Presentations of the WDR 2009 team were followed by open discussions on the key issues and concerns related to urbanization, territorial development, and regional integration facing all of the Central Asia. Diversity of the audience provided a very rich discussion on these topics. Guests in all cities emphasized the high interest of the WDR 2009 topic and recognized the study as a good foundation for further research and action.

Using GPS Technology to Improve Agricultural Productivity in Senegal

- A survey reveals that most small farmers in Senegal do not know the actual size of their field
- Inaccurate assessment of farm land leads to a waste of resources, over fertilization, and difficulties obtaining credit
- A local company tries to give farmers a boost by using GPS technology to get an accurate reading of farmland

DAKAR, March 1st, 2009 —To the question “What is the surface area of your field?” most farmers in Les Niayes, a locality on the north Atlantic coast of Senegal, give an incorrect response. This is revealed in a study by MANOBI (Senegalese operator of value-added NICT services) showing that farmers do not have precise knowledge of the agricultural surface area of their fields, and as a result they tend to overestimate how large they are. Indeed, states the report, the average error is about 40 percent of the actual surface area and relates mainly to small farms.

The authors of the study asked farmers—310 people managing 373 plots in six rural communities—what was the surface area of their farm. Next, they calculated the actual surface areas, measured on the basis of GPS readings, with 0.01 ha accuracy. Taking all these plots together, the surface area measured by GPS (474.5 ha) is 4.1 percent less than that stated by farmers. In fact, the average error is 0.55 ha per plot, as 82 percent of farmers give a surface area that is incorrect by more than 10 percent—that is, 1,000 square meters per hectare—above (62 percent) or below (32 percent) the actual size.

Analyzing this situation, the authors of the study conclude that a lack of precise knowledge about the principal means of production, land, generates a string of errors. Consequently, in the view of the Director-General of MANOBI, Daniel Annerose, the production costs of Senegalese agriculture are overvalued and its yields undervalued.

“By taking credit from the commercial banks on the basis of incorrect information about surface areas farmed, farmers are assuming more debt than they reasonably should, considering their real income at the end of the crop year,” Annerose said. Citing the example of the National Agricultural Credit Fund of Senegal (CNCAS), he estimated that the CFAF 12 billion it allocates annually to farmers leads to nearly CFAF 4.75 billion in excess indebtedness because of poor surface area estimation. This means a “misallocation” of CFAF 23.5 billion every five years.

Relating the same calculation to the Great Agricultural Offensive for Food and Abundance (GOANA), a Senegalese government program launched in April 2008, Annerose believes that it was possible to save CFAF 82 billion out of the CFAF 210 billion spent on fertilizers and phytosanitary products. Indeed, inputs—in particular, seeds and phytosanitary products—that require optimal use are generally in much higher quantities than necessary, and this has an adverse effect on yields as well as on the environment, with an excess of pesticide applied to arable land. Moreover, farmers will say they are tired of ending up every year with an appreciable amount of unused seeds that they try to sell on local markets!

According to Annerose, when calculating arable surface areas in Senegal, “For the 2.5 million hectares cultivated in Senegal (source: FAO), about CFAF 300 billion in savings can be made, simply through correct estimation of surface areas actually under cultivation in Senegal,” and this amount can be reinvested into the agricultural sector to improve its performance.

In the opinion of Cheikh Ngane, President of the National Organization of Exporting Producers of Fruits and Vegetables of Senegal (ONAPES), a lack of knowledge about land farmed leads to serious distortions in the process toward competitiveness of Senegal’s agricultural products, even while they must meet the standards of the European Union, the country’s principal market.

Like his counterpart in the Les Niayes Farmers Union, Mamadou Ndiaye, he believes that the study should be broadened to include the accurate mapping of land under cultivation, because they are of the view that “we should stop setting the costs of producing tomatoes and onions, as well as quantities produced, on the basis of surface area calculations that do not reflect reality and are, moreover, generally overvalued.”

But for Malick Ndiaye, Credit and Network Director at CNCAS, the consequences of the lack of knowledge about surface areas need to be viewed as relative. In fact, he assures us, in irrigated sectors (Senegal River Valley and Anambé) and in the cotton-producing regions, knowledge of surface areas is accurate because of the presence of managing state enterprises such as the Senegal River Delta Development and Land Use National Company (SAED) and the Textile Fiber Development Company (Sodefitex). “It is, rather, in the dry areas—in the peanut basin and in Les Niayes—that the problem of inaccurate information really seems to arise.”

Of course, Ndiaye admits, this poor estimate of surface areas has an impact on the demand for credit. “It is true that in deciding to grant credit we don’t go to the site to take accurate topographical readings, but we base our decisions on our experience as agro-economists, as well as on statements made by farmers, who know, from experience, their needs for inputs for a given production.” He admits, at the same time, that precise knowledge of surface areas under cultivation facilitates the calculation of the credit risks faced by financing institutions.

“The establishment of a reliable information system using new information and communication technologies is proving indispensable for increasing the competitiveness of Senegalese agriculture,” said Ndèye Coura Diop, a monitoring-evaluation specialist in the Project to Develop Agricultural Markets in Senegal (PDMAS), which is financed by the World Bank. The need for accurate readings of cultivable farm land is further highlighted by the fact that the agricultural sector employs 70 percent of the Senegalese population.

For a Maximum Effectiveness of Social safety nets

Mars 2009 - All countries fund safety net programs or social assistance programs for the protection of their people. Safety nets refer to non-contributory transfer programs which reach in some manner the poor or vulnerable, such as:

- Cash transfers or food stamps, whether means tested or categorical as in child allowances or social pensions,
- In-kind transfers, with food via school feeding programs or mother/child supplement programs, but also take-home food rations, school supplies and uniforms, and so on,
- Price subsidies meant to benefit households, often for food or energy,
- Jobs on labor-intensive public works schemes, sometimes called workfare,
- In-cash or in-kind transfers to poor households, subject to compliance to specific conditionality on education or health,
- Fee waivers for essential services, health care, schooling, utilities, or transport

A workshop on Social Safety Nets and Conditional Cash Transfers was held in Rabat on February 24 and 25, 2009

The workshop brought together approximately 50 World Bank staff members, representatives of ministerial departments and counterparts from the Middle East and North Africa Region, interested in sharing their experience and enhancing their knowledge about Social Safety Nets and Conditional Cash Transfers. The objectives were to stimulate a regional discussion around these issues in the region, and to contribute to the debate about alternatives to subsidies.

The presentation of the recent World Bank publication "For Protection and Promotion: Design and Implementation of Effective Safety Nets" was a platform for discussion. It describes what social safety nets are, how they fit in general development policy, who they serve, how they help mitigate risks and promote social and productive inclusion. The workshop also discussed the lessons learnt from the evaluations of Conditional Cash Transfers summarized in the report "Conditional Cash Transfers: Reducing Present and Future Poverty", drawing from the experiences of several countries.

Avian Flu Containment Project Kicks Off in Niger

The Avian Flu component of the Community Action Program kicked off in Niamey on February 11, 2009 with a workshop chaired by Issiaka Ag Kato, Niger's minister of Livestock and Animal Industries. In attendance were several members of the Government; the World Bank Country Manager Ousmane Diagana; the district governor of Niamey; national, regional and local members of committees in charge of the fight against the avian flu, World Bank staff, representatives of international organizations and aviculturist associations.

This two-year project, which started in December 2007 and will close in June 2010, is a supplemental grant to the Community Action Program (Phase 1) in the amount of USD 4,821,076. It is designed to finance prevention and control activities pertaining to new Highly Pathogenic Avian Flu Influenza (HPAFI).

The project has four components:

- Support to the Government's veterinary services with respect to Highly Pathogenic Avian Influenza, including: (i) Enhancing prevention and preparedness capacity; (ii) Strengthening disease surveillance and diagnostic capacity; and (iii) Strengthening control programs and outbreak containment plans;
- Support to the Government's human health services with respect to Highly Pathogenic Avian Influenza, including: (i) Strengthening national public health surveillance systems; (ii) and strengthening health system response capacity.
- Improving public awareness and communications on Highly Pathogenic Avian Influenza, including: (i) Supporting information and communications activities, and (ii) Improving collaboration with the Recipient's partners and stakeholders, in relation to Highly Pathogenic Avian Influenza; and
- Strengthening monitoring and evaluation of Avian Influenza related activities, including environmental and social aspects.

According to Minister Issiaka Ag Kato, Niger poultry livestock is estimated at 12.2 million units. It contributes up to 25% to the country's food security. Unfortunately, this activity is dominated by the informal sector, which accounts for more than 90% of all activities despite the efforts of the government to modernize the poultry sector.

In February and May 2006, Niger became the third African country—after Egypt and Nigeria—where an endemic outbreak of avian flu was declared. While the pandemic is currently under control, the World Bank’s representative in Niger in his address called on all stakeholders to observe "extreme vigilance," because “prevention is better than cure.” One of the main recommendations of the workshop was to harmonize the activities of different donors to enhance the impact of their interventions through relevant communication channels.

Bangladesh Marching towards a Better Future

February 26, 2009 - Bangladesh has come a long way since it won its independence in 1971. At the time, the country was desperately poor, over-populated, and reeling from poor infrastructure. Bangladesh has since made great strides. Life expectancy has risen, poverty has been reduced, infant mortality has declined, population growth has been halved, and the country is on track to meet many of the Millennium Development Goals (MDGs) by 2015.

The World Bank has provided strong support to Bangladesh’s development, financing projects in health, education, infrastructure, and supporting reforms to improve the investment climate and enhance growth. In fact, the country is one the largest recipients of World Bank support since 1972.

New Approach Propels Sudan toward a Healthier Future

KHARTOUM, February 25, 2009—In the remote village of Tubar, a 15-hour drive east of Sudan’s capital Khartoum, a renovated and fully functional health center shows how Sudanese citizens are mobilizing themselves to improve their lives. In 2007, as part of the government’s Decentralized Health System Development (DHSD) Project, aimed at providing health services in rural communities, the local health center building was deemed unsuitable to house patients or drugs. The center would have to be upgraded, project officials said, in order to receive equipment and staff. To meet the need, members of the community joined together to find local resources to rehabilitate the building.

“I had to sacrifice my US\$50 monthly incentive for three months to contribute to the rehabilitation of the health facility that was severely damaged by the heavy rains,” said Mohamed Ibrahim, a health worker at Tubar’s center. “As one of the few educated people in this community,” he said, “I had to take the lead to mobilize the community’s financial and physical support for meeting the DHSD project’s requirements.” Today, the fully stocked facility provides health services not just to Tubar residents, but also to people in the neighboring villages of Oleeb and Gonob.

Challenges to Sudan’s Health Sector

The DHSD Project is part of the wider, World Bank administered, Multi Donor Trust Fund (MDTF). The project targets the conflict-affected and poor states of Southern Kordofan, Blue Nile, Kassala, and Red Sea and covers a population of approximately 5.1

million. Launched in January 2007, the project will be implemented over a period of four and a half years at a total cost of US\$19 million, which includes a government fund of US\$13 million and MDTF-co-financing of US\$6 million. It draws on lessons learned from health projects in other post-conflict settings (Afghanistan, East Timor, Democratic Republic of Congo) and from countries where domestic systems, capacity, and resources are more developed (Bosnia-Herzegovina, Albania).

As is the case in many low-income countries, Sudan's health system operates with meager resources and in the face of challenges to budget and resource allocation, management, quality of care and work force. The DHSD project was undertaken as a requirement of Sudan's Joint Assessment Mission (JAM), an agreement between Sudan and its development partners, which assessed the needs of the country over the six-year interim period following the signing of the 2005 Comprehensive Peace Agreement (CPA). The project also is in alignment with the Federal Ministry of Health's (FMoH) 25-year Strategy.

"Through solid partnership and co-financing, the government and MDTF funds are complementing each other to enhance results on the ground for improved health system capacity that lays the groundwork for sustainable financing, health sector reform, and development of a decentralized health care system," said Dr. Mohamed Osman, DHSD Project Coordinator.

Fruits of the First Two Years

With the implementation of the DHSD project in the last two years, Sudan has embarked on a series of initiatives to adjust its health strategies and improve the impact of health programs. To boost malaria control efforts in underserved areas, for instance, 179,100 bed nets have been distributed to the four targeted states. "Malaria cases have significantly dropped among my children since the bed nets were introduced a year ago," said Miriam Kodi, a mother of four in Dalamy village in South Kordofan. "Before that they used to get infected by malaria about three times a year." According to Kodi, the only improvement she'd like to see made is a health facility in her village. The closest facility for malaria testing is a two-hour walk.

The DHSD project is also meeting its mandate to decentralize and scale up primary health care services for marginalized populations. As such, it has provided medical consumables, laboratory supplies, and other non medical consumables to 46 health centers (out of 59) and to 99 basic health units (out of 114). To improve health deliverables and outreach the project intends to provide seven ambulances, 11 mobile clinics, five mobile cinemas, and 38 vehicles to the four beneficiary state ministries of health.

Finally, to establish reform and development in Sudan's health sector, the project has helped initiate investment in health training institutions in several areas:

- Work has begun on the rehabilitation and construction of national health academies in its four beneficiary states;
- in Kassala state, two training workshops have been conducted for 72 medical assistants in rapid testing and simple laboratory services, and 42 traditional midwives have started midwifery training; and
- the National Health Academy (NHA) of the Blue Nile completed first year training for 290 nurses.

“I’m very grateful for this training opportunity that will definitely improve my knowledge and practices,” said Dawod Salih, a nurse who participated in the NHA’s training program. “I’m confident that I will be able to provide adequate medical care to the people in the area.”

Statement by Heads of Multilateral Development Banks and the IMF

We the Heads of the Multilateral Development Banks and the International Monetary Fund met in Tunis on 12 February at the invitation of the African Development Bank. Discussions focused on recent developments in the global financial and economic crisis; the response of each institution; on the further action and resources required. The financial crisis has spiraled into a global economic crisis with growth projected to fall to ½ a percent in 2009, its lowest rate since World War II. Financial markets remain under stress; currency markets are highly volatile; global industrial production and merchandise trade have plummeted since November 2008; and asset values are falling sharply.

Our review of the situation in each region underlined the high levels of uncertainty and downside risks in emerging and developing economies the consequences go well beyond economic contraction or reductions in growth. Unlike the advanced economies, these countries simply do not have resources to bailout their financial or other sectors, to provide a package of stimulus measures, or of social protection. Access to credit has been sharply reduced as banks de-leverage and meet first demands in home markets.

Emerging and developing countries face the prospect therefore of a reversal of hard won economic progress and stabilization; and indeed for some, a risk of a full blown development and humanitarian crisis. The social and political strains are increasingly evident. We underlined our commitment to play a counter-cyclical role in support of the client countries to mitigate the impact of the crisis. Our institutions are already making unprecedented efforts, in line with their respective mandates using all available instruments. These include: providing immediate balance of payment and budget support; establishing new emergency liquidity and trade finance facilities; mobilizing funding to maintain investments in critical public and private infrastructure; implementing measures to bolster the solvency and liquidity of banking systems; addressing acute financing needs in the private sector; frontloading allocations of concessional resources; speeding up implementation. We welcomed the determination of the G20 to develop a concrete plan of action to address comprehensively the issues raised by the crisis, in time for the forthcoming G20 Leaders meeting in London in April.

We noted the importance of avoiding a protectionist response; experience shows that would inflict damage on developed and developing countries alike. We emphasized that a multilateral solution that takes into account the interests of all countries, including the poorest, is vital. The MDBs and IMF can play key roles to secure such an outcome. Our institutions will make full use of existing capital resources, but we emphasized this alone will not be sufficient given that the scale of the challenges.

We urge shareholders to support those of us who will need to raise additional resources, including through early general capital increases. Other institutions may have to review constraints on the utilization of their existing capital. We urged shareholders to take a consistent approach across the institutions. We pledged to work together based on the strategic priorities and comparative advantage of each. We agreed to do more to share information and analysis, and where possible use common procedures.

We welcome the commitments made by donors to deliver on their commitments to increase development assistance, and put into practice the actions agreed to improve development effectiveness. Consistent with the need to take immediate measures to assist now the poorer countries, we support the proposal for vulnerability fund to which developed countries could devote a modest amount (e.g. 0.7 percent) of their stimulus packages to support the neediest in developing countries. MDBs, together with UN organizations, could channel the funds to the targeted groups. Using existing mechanisms, coupled with a robust monitoring system and safeguards for the utilization of such funds, would ensure timely and flexible delivery.

We thanked the President of the African Development Bank for bringing us together at this time. It was particularly opportune in the run up to forthcoming G7/8 and G20 meetings. The next few months will be critical in developing ineffective response to the crisis and our institutions have a vital role to play. We agreed to remain closely in touch and by working together to maximize the contribution we can make.

Emerging Countries' Officials Show Confidence despite Growth Slowdown

- Emerging countries' officials show confidence despite growth slowdown in a recent World Bank dialogue on the global economic crisis
- Many middle-income countries—especially those that survived crises in the 1990s—have shored up defenses to soften the effects of the crisis, participants concluded
- Dialogue is one in a series of GDLN video conference for policymakers to share experiences in dealing with the crisis

February 24, 2009—Senior economic and central bank officials from emerging market countries who participated in a February 12th World Bank video conference on the global economic crisis said that despite falling trade volume and slowing GDP growth, their financial systems and international reserves remain strong, in contrast to the crises of the late 1990s. Officials from Brazil, China and India, among others, responded to remarks

by economics professors Guillermo Calvo, of Columbia University, and Patrick Honohan, of Ireland's Trinity College. Calvo noted that while the U.S. is suffering "a double-whammy" of a drop in aggregate demand combined with a credit crunch, most emerging markets are faring better. The emerging markets' bond index is doing "quite well" under the circumstances, he said, with spreads lower than those of the US corporate (junk) bond market index.

Calvo and Honohan spoke with policymakers and analysts at the third in a series of *Global Dialogues as a Response to the Global Economic Crisis* organized by the World Bank Institute (WBI), which delivers knowledge and learning services to developing countries. These dialogues provide an opportunity for policymakers dealing with the global crisis to share their experiences, and what they have learned from them.

While officials from China, India and Brazil confirmed a recovery in capital inflows and international currency reserves in recent months, they have also taken measures to stimulate their economies, while also delivering social programs to cushion the impact of job losses. For example, Yang Jinlin, of China's Asia-Pacific Finance and Development Center, noted that China's GDP growth dropped from 10 to 6.8 percent in the fourth quarter of 2008, largely due to a 10-percent drop in exports during the same period. This has wiped out jobs for 23 million migrant workers in China, he said. It has prompted the Chinese government to reduce interest rates five times, and to launch a stimulus package worth four trillion Yuan over the next two years. These measures are aimed at preventing a hard landing for the Chinese economy, he said. He acknowledged that the shift from an export-driven to a domestic-demand-driven economic model will take a long time.

Guillermo Calvo expressed concern that financing requirements for the U.S. government's stimulus package could "crowd out" capital currently drawn to emerging markets.

Officials acknowledged that risk, but remained bullish about the current state of their economies. Katherine Hennings, advisor to Brazil's Deputy Governor for Economic Policy, said her country is pumping liquidity into its economy to enable banks to finance private sector activity, especially trade. In this crisis, government is not the problem, she said, drawing a contrast with the 1990s. She said Brazil holds \$208 billion in reserves, and that its financial system—with banks' capital-to-equity ratio at 16 percent—is sound. Alok Sheel, Joint Secretary of India's Economic Affairs Department, was similarly upbeat, saying that India's large domestic market was a bulwark against the drop in demand for India's exports. The financial sector, meanwhile, is relatively robust, he said, with little exposure to toxic assets.

A marked consensus emerged from the two-hour exchange that while middle-income countries are being hit by the economic crisis in the rich countries, many of them—especially those who survived major crises in the 1990s—have shored up their defenses. In contrast to several more developed economies, they have established sound prudential bank regulation, trimmed deficits, and accumulated reserves that now enable them to roll

out stimulus packages to soften the damage of the global turmoil. All good news, but all were also clearly aware of the risks that remain.

These Global Dialogues are being delivered through the Global Development Learning Network (GDLN), a partnership of more than 120 recognized global institutions, which collaborates in the design of customized learning solutions for individuals and organizations working in development.

Yemen: Water Sector Support Project

WASHINGTON, February 24, 2009 - The following project was approved today by the World Bank's Board of Executive Directors:

IDA Grant: US\$90 million

Project Description: The **Water Sector Support Project for Yemen** aims to support the Government of Yemen's implementation of the National Water Sector Strategy and Investment Program (NWSSIP) to: (i) strengthen institutions for sustainable water resources management; (ii) improve community-based water resource management; (iii) increase access to water supply and sanitation services; (iv) increase returns to water use in agriculture; and (v) stabilize and reduce groundwater abstraction for agricultural use in critical water basins.

BUSINESS AND POLITICS IN THE MUSLIM WORLD
REPORT ON GLOBAL ISLAMIC FINANCE

January 01-February 20, 2009

M. Ibrahim

Presentation: March 18, 2009

Islamic Development Bank News

The Islamic Development Bank and the Global Fund to Fight Aids, Tuberculosis and Malaria Join Hands to Fight Malaria and other Diseases

Sunday, 08 March 2009

Tehran,4.3.09; The Islamic Development Bank (IDB) and the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) signed today, in Tehran,a memorandum of understanding to pool their efforts and support activities of IDB member countries to fight Malaria, Tuberculosis and other diseases and achieve the Millennium Development Goals (MDGs). The MOU was signed by the IDB Vice President, Operations, Mr. Birama Sidibe and Prof. Michel Kazatchkine, Global Fund Executive Director in Tehran, Iran, on the sidelines of the Second Conference of Ministers of Health of the Organization of. the Islamic Conference. H. E. Dr. Kamran B. Lankarani, Minister of Health and Medical Education, Iran, presided over and graced the signing ceremony attended by the Assistant Secretary General of the Organization of the Islamic Conference and several other dignitaries. The IDB and the Global Fund shall cooperate in a phased manner, emphasizing the fight against malaria initially and depending on the results achieved, subsequent efforts will he directed towards Tuberculosis and HIV/AIDS. The two institutions will work within the policy framework of their respective organizations to maximize the use of resources available to them to enhance the national response to the diseases in their beneficiary countries in Africa, the East Mediterranean and South East Asia regions. While the IDB will provide some resources and technical assistance for its member countries to prepare sound proposals, the Global Fund will help to facilitate the provision of support by identifying eligible applicants for funding and grant from within those member countries. Both parties will hold two annual meetings - the first to discuss and agree on a working program and the second to review progress of implementation. The MOU enables both organizations to expand their respective partnership network. It adds a new important player to IDB's growing list of partners active in the health area which includes WHO, UNFPA, the international Drug Purchasing Facility (UNITAID), Roll Back Malaria and the World Bank, to name some. The MOU enables the Global Fund to engage a new partner in the Islamic World in the

fight against Malaria. IDB has been active in supporting the Health Sector in its member countries since its inception in 1975. A total of 210 health projects at a cost of US\$ 1.2 billion had been carried out so far. Of late, the IDB started to address malaria as a serious poverty disease hampering development. IDB is a development Institution, based in Jeddah, Kingdom of Saudi Arabia. It operates according to the principles of Islamic Shariah. The Global Fund is a Geneva-based financing agency dedicated to mobilizing and distributing additional public and private resources to prevent and treat HIV/AIDS, Tuberculosis and Malaria. To date, 46 countries out of 57 member states of the Organization of the Islamic Conference benefited from the Global Fund grants. Amongst these member states, 16 are in Middle East/North Africa region, 16 in Africa, 7 in Asia, 5 in Central Asia and Central Europe and 2 in the Caribbean region. There has been a steady and significant increase in approved grants in OIC member states to over US\$ 5 billion, 60% of which goes to the fight against Malaria.

President of IDB addresses the 5th World Islamic Economic Forum being held in Jakarta, Indonesia, and proposes three avenues to meet global challenges

Wednesday, 04 March 2009

Jakarta, 3rd March, 2009: The Islamic Development Bank Group (IDB Group) provided “Gold Sponsorship” to the 5th World Islamic Forum WIEF being held in Jakarta, Republic of Indonesia. In his speech in the Leadership Panel on “Innovative Solutions to Global Challenges”, HE Dr. Ahmad Mohamed Ali, President of the IDB Group praised WIEF for addressing these critical topics, and emphasized three avenues to new innovative solutions to meet global challenges, namely, ethics-based rather than rule-based financial governance structure, investment partnership with the poor and the vulnerable, and unleashing the God-given potential and innate strength of the full human resources. In his speech, he briefed the participants on IDB Group activities in meeting global challenges.

The first day of the Forum included two panel sessions titled “Leadership Panel” and “Global CEO Panel” followed by four plenary sessions namely; Beyond Scarcity: Overcoming the Global Food Crisis, Paving Greener World: Creating a Future for Alternative Energy, Stemming the Tide of the Global Financial Crisis, and Global SMEs: Business Beyond Boundaries.

The Islamic Corporation for the Development of the Private Sector (ICD), took the opportunity of the distinguished gathering of corporate leaders, practitioners, and stakeholders and organized an “IDB Indonesia Client Day” during which the President, IDB Group & CEO of ICD gave welcoming remarks followed by detailed presentations of the services provided by IDB Group, and on how to generate future partnerships and joint ventures with the Indonesian parties.

30 Key Indonesian Companies to Participate in the IDB-Indonesia Client Day Dialogue

Monday, 02 March 2009

The Islamic Development Bank (IDB) Group will host, on the 3rd of March 2009, the IDB-Indonesia Client Day Dialogue on the sidelines of the 5th World Islamic Economic Forum (WIEF) which will take place in Jakarta from 1-4 March 2009. The IDB President and the CEO of the Islamic Corporation for the Development of the Private Sector (ICD) will address the business meeting to emphasize the various IDB Group's programs and financial products aimed at developing the private sector in member countries.

Mr Khaled Al Aboodi, Chief Executive Officer of ICD, a private sector arm of IDB, will speak on the IDB Group and the Indonesia: Private Sector Partnership. ICD's key mission for this event is to forge strategic partnership and increase its financing opportunities to Indonesian private sector and financial institutions. The event also aims to have a closer interaction between senior management of IDB Group and key Indonesian institutions and ultimately to promote Indonesian private sector to other IDB Member Countries.

The IDB Group delegation will also participate in the WIEF functions under the chairmanship of H.E. Dr. Ahmad Mohamed Ali, IDB Group President. The President of IDB Group will participate in a panel discussion on Innovative Solutions to Global Challenges.

The WIEF which will focus on the current food security, energy and the current financial crisis, will be attended by world leaders, CEOs of multinational companies, regional and international economic and development institutions. The IDB and WIEF signed an MOU on 23 September 2007 in Jeddah to facilitate collaboration and cooperation between the parties in area ,among others, the discussion and debate on development issues aimed at better understanding of global economic challenges and promotion of strategic alliances and partnerships and the promotion of economic growth through

increased intra trade and intra investment. The integration of the Muslim world economies among themselves and with the rest of the world is the twinning of IDB-WIEF strategic value proposition for the benefit of the global economy.

The World Islamic Economic Forum (WIEF), which was established in 2005, is a platform designed to become the prominent World Forum on Muslim Leadership and Islamic Business and Trade. WIFE also aims to create a better Muslim world through solid economic cooperation and business partnerships. The Islamic Development Bank Group, is a multilateral development financing institution, based in Jeddah, Saudi Arabia, established to foster social and economic development of its member countries and Muslim communities world-wide.

Asian Development Bank News

ADB, Pakistan Outline Strategic Priorities in Five-Year Plan

13 March 2009

ISLAMABAD, PAKISTAN - The Asian Development Bank (ADB) and the Government of Pakistan have designed a major new strategic partnership aimed at promoting inclusive and sustainable economic growth through structural reforms and investment in the energy and infrastructure sectors.

Endorsed by ADB's Board of Directors in Manila on March 5 2009, the Country Partnership Strategy (CPS) 2009-2013 provides for a US\$4.4 billion lending program that aligns with the government's goal of facilitating structural change, promoting investment, and improving institutional effectiveness.

"The CPS will support Pakistan's fight against poverty and its pursuit of prosperity by tackling binding constraints to inclusive economic growth," said Rune Stroem, Country Director of ADB's Pakistan Resident Mission. "Supporting the government's reform agenda and improving the energy, transport, and urban infrastructure will help reduce the cost of doing business and strengthen the underlying competitiveness of the economy."

The CPS outlines a second generation of economic reforms aimed at reducing distortions, accelerating market creation, eliminating governance and institutional bottlenecks, and strengthening public financial management reform. These reforms will help enhance private sector investment, support diversification of the economy, create jobs, and improve the efficiency of government functioning.

In a country where crippling power outages increase the cost and challenges of doing business, the CPS aims to strengthen Pakistan's energy supply chain. Measures include augmenting and expanding transmission stations and lines, strengthening distribution companies, and developing power generation facilities using renewable sources. These

and other improvements aim to contribute to reducing electricity outages by a further 30% by 2012 and increasing the number of grid-connected electricity consumers from 60% in 2008 to 70% by 2013.

Pakistan's transport infrastructure is another area of the CPS's strategic focus. Financial and technical assistance will be supplied to improve connectivity along the National Trade Corridor and other major highways. This will enable export firms to be more competitive by reducing transportation costs and travel time. The CPS projects that by 2017 the road travel time between Peshawar and Karachi will be halved to 36 hours from the 2006 time of 72 hours.

Improving the quality of lives of citizens in cities and towns receives a major emphasis in the CPS. Strengthening water supply and sanitation services and urban transportation systems will not only lead to enhanced economic competitiveness but will also yield health and environment improvement dividends for the benefit of urban citizens.

Strengthening implementation of projects and programs and capacity building is key to obtaining development results. The CPS provides a platform for ADB and the Government to work together to improve the effectiveness of the assistance earmarked under the strategy.

Pakistan has received about \$19.8 billion in loans since joining ADB in 1966, with about \$14 billion disbursed as of the end of 2008. The lending program in 2008 was a record that included \$1.87 billion disbursement and \$1.2 billion in newly approved assistance.

As of December 2008, ADB's active portfolio in Pakistan included 62 public sector loans assistance channels amounting to \$3.0 billion in the areas of infrastructure, social sectors, governance and earthquake rehabilitation, for a total of \$5.1 billion.

Governments Plan to Save Coral Triangle

13 March 2009

PORT MORESBY, PAPUA NEW GUINEA - Environment and fisheries ministers from six Asia Pacific countries on Wednesday considered a comprehensive plan to tackle coastal and marine resource degradation in the fragile Coral Triangle ecosystem.

The draft Regional Action Plan for the Coral Triangle Initiative (CTI) on coral reefs, fisheries and food security provides a framework for Indonesia, Malaysia, Papua New Guinea, Philippines, Solomon Islands and Timor-Leste to ensure the sustainable management of an area often referred to as "the Amazon of the Seas." The CTI subregion is the epicenter of marine life abundance and diversity on the planet, holding more than 75% of the known corals and over 3,000 species of fish.

"The CTI plan of action represents a major step forward to improve coastal resource management, as these countries must also now adapt to the impacts of climate change,"

said Thomas Crouch, Deputy Director General of Asian Development Bank's (ADB) Southeast Asia Department at the conclusion of the three-day meeting in Port Moresby, Papua New Guinea. "The high level of regional cooperation on this issue underscores both its seriousness and the commitment of affected countries to respond."

The draft CTI plan was developed through a series of governmental discussions and stakeholder consultations. It is expected that the plan will be endorsed by heads of state at a CTI Leaders Summit to be hosted by Indonesia in Manado in May. A World Ocean Conference will take place as a prelude to the CTI Summit, and ADB has just announced it will provide technical support at both events.

The Port Moresby meeting also reaffirmed the commitment of CTI Partners to a common cause with the six governments.

Working with the Global Environment Facility (GEF), the ADB has served as lead partner for mobilizing financial resources for the program. The other founding partners are the governments of Australia and the United States as well as leading international environmental NGOs, Conservation International, The Nature Conservancy, and the World Wide Fund for Nature. Several United Nations agencies and other academic and development groups are also involved.

Mobilization of resources to support new activities under the CTI is still ongoing, but it has so far generated commitments or pledges of around US\$400 million. The GEF has committed up to \$63 million in grants, the United States Government a further \$40 million, and ADB and the six signatory governments are expected to contribute new financing in excess of \$300 million.

Global Financial Market Losses Reach \$50 Trillion, Says Study

9 March 2009

MANILA, PHILIPPINES - The global financial crisis slashed the value of financial assets worldwide by a massive \$50 trillion last year, with developing Asia suffering more than other emerging market regions.

According to a new study commissioned by the Asian Development Bank (ADB) entitled *Global Financial Turmoil and Emerging Market Economies: Major Contagion and a Shocking Loss of Wealth?*, losses on financial assets in developing Asia in 2008 totaled \$9.6 trillion, or just over one year's worth of gross domestic product (GDP).

Asia was hit harder than other parts of the developing world because the region's markets have expanded much more rapidly. The value of financial assets to GDP rose to 370% of GDP in developing Asia in 2007 from 250% of GDP in 2003. In Latin America, the ratio only rose by 30%, with the result that estimated losses on financial assets were a much lower \$2.1 trillion, or 57% of GDP.

“This is by far the most serious crisis to hit the world economy since the Great Depression. While this crisis originated in the US and some European countries, by now no region or country is insulated. I am afraid things may get worse before they get better. However, I remain confident that Asia will be one of the first regions to emerge from it, and it will emerge stronger than ever before,” says ADB President Haruhiko Kuroda.

The ADB estimates measure the losses in equity and bond markets, including those backed by mortgages and other assets, and the depreciation of many currencies against the U.S. dollar. Not included are financial derivatives such as credit default swaps that further multiplied the size of the financial markets.

The data provide clear proof of the close connections between the markets and the economies around the world, leaving few, if any, countries immune to financial or economic fallouts elsewhere. A recovery can only now be envisaged for late 2009 or early 2010, according to the study.

"Most emerging market economies, including in developing Asia and Latin America are at a crossroads, and the next 12 to 18 months will be very difficult," the study says. "However, there has been no destruction of physical and human capital, boding well for a strong recovery, possibly more cautious and sustainable, after the adjustments in the financial markets are worked through over the next year or so."

ADB President Haruhiko Kuroda and other experts will discuss the study at the 'South Asia Forum on Impact of the Global Economic and Financial Crisis', a two-day conference being held at ADB headquarters in Manila starting today.

South Asia Can Weather Economic Crisis, Says New Study

9 March 2009

MANILA, PHILIPPINES - South Asian countries can weather the global financial crisis by taking both short- and long-term measures to stimulate their economies, says a new study commissioned by the Asian Development Bank (ADB).

The study titled *The Impact of the Global Economic Slowdown on South Asia* notes that the subregion has been hit by capital outflows and weaker commodity prices, and faces a sharp slowdown in exports and remittances as the global troubles worsen.

A number of short-term measures have been taken to cushion the impact of the crisis, including monetary easing and fiscal stimulus packages. The study suggests there is further room for interest rate reductions, particularly in India and Sri Lanka. While most countries have little scope for large stimulus packages, given deficit constraints, India, which has introduced two of them, should disburse the funds swiftly for maximum impact, the study says.

It adds that governments could consider incentives to encourage overseas workers to remit money home, such as special savings instruments, and they should also discuss currency swap arrangements and other measures to keep their financial systems stable.

In the longer term, South Asian countries need to reduce their fiscal deficits, diversify their economies, step up infrastructure investment and boost intra-regional trade to take up the slack of lower demand from G7 nations, the study says.

“While some countries in South Asia have had relatively less exposure to the crisis from the adverse impacts of capital flows, more than half of the 900 million people in developing Asia who survive on US\$1.25 a day live in the subregion, so any tempering of growth is a serious cause for concern,” says ADB President Haruhiko Kuroda.

The study is being presented as a discussion paper at the South Asia Forum on Impact of the Global Economic and Financial Crisis, a two-day forum being held at ADB headquarters on March 9 and 10. Participants include former Managing Director of the International Monetary Fund, Michel Camdessus, former Philippines President, Fidel V. Ramos, and former Vice Minister of Finance, Japan, Makoto Utsumi.

ADB to Host Forum on Impact of Financial Crisis on Asia

7 March 2009

MANILA, PHILIPPINES - Senior policymakers, heads of central banks, the private sector, and academe will gather at the Asian Development Bank's (ADB) headquarters in the Philippines capital on Monday to share policy responses to the global financial crisis and its impact on Asia.

ADB President Haruhiko Kuroda will open the two-day South Asia Forum on Impact of the Global Economic and Financial Crisis Forum, the first of three forums to be held in the region in coming months.

Participants include former Managing Director of the International Monetary Fund, Michel Camdessus, former Philippines President, Fidel V. Ramos and former Vice Minister of Finance, Japan, Makoto Utsumi.

“The global financial crisis has started to hurt all countries in South Asia,” says Kunio Senga, Director General of ADB's South Asia Department. “India’s economic growth has dropped significantly, while stock prices have come down sharply. Even small economies like the Maldives are being hurt due to a sharp drop in tourism.”

The ADB will use the forum to launch two major studies – *The Impact of the Global Economic Slowdown on South Asia* and *Global Financial Market Turmoil and Emerging Market Economies: Major Contagion and Shocking Loss of Wealth?* – which examine the impact of the financial crisis on Asia.

Polycymakers from Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka will attend the forum to discuss policy approaches and regional responses to the crisis.

World Bank News

A New MENA Report: “SHAPING THE FUTURE”: A Long-Term Perspective of People and Job Mobility For the Middle East and North Africa

.Internationalization of the production of goods and services, reduced communications and transportation costs, and global demographic developments will lead to higher international mobility of labor and jobs in the coming decades.

.In the course of the next 40 to 45 years, the world population will go through significant shifts, which will affect growth and welfare prospects in all regions.

.Over the long run, income growth and the prosperity of nations will depend on the availability of a sufficiently large workforce with a range of skill levels and the ability to adapt to the changing needs of society.

March 2009 -Demographic differences across regions will increase global pressures for labor and job mobility. The internationalization of the production of goods and services, reduced communications and transportation costs, and global demographic developments will lead to higher international mobility of labor and jobs in the coming decades. Over the long run, income growth and the prosperity of nations will depend on the availability of a sufficiently large workforce with a range of skill levels and the ability to adapt to the changing needs of society.

Key messages of the report:

A Global market for jobs and workers is developing rapidly: The internationalization of the production of goods and services, reduced communications and transportation costs, and global demographic developments will lead to higher international mobility of labor and jobs in the coming decades. Over the long run, income growth and the prosperity of nations will depend on the availability of a sufficiently large workforce with a range of skill levels and the ability to adapt to the changing needs of society.

Demographic differences across region will increase global pressures for labor and job mobility: In the course of the next 40 to 45 years, the world population will go through significant shifts, which will affect growth and welfare prospects in all regions. The world population will grow by some 2.6 billion people to reach 9 billion by 2050. At the same time, declining fertility and increasing longevity are contributing to an aging population worldwide. As a result, the population over 40 years old stands to increase by

as much as 2 billion people—or by 75 percent—and the share of people 65 and older will more than double. These prospects could pose serious risks to economic growth, fiscal balances, and the welfare of the elderly.

Labor shortages are likely to occur in occupations across the skills spectrum: Labor migration involves and will continue to involve different skill levels. Labor shortages in some areas, such as health care professionals at various skill levels, are already significant. Short- and long-term projections both point to the fact that labor shortages will grow in many rich countries, and that these labor shortages will occur across the skills spectrum, with significant demand for mid level skills (such as nurses, intermediate business services) or even relatively low-level skills (retail sales persons, waiters, and so on). Migrants with vocational, secondary levels of education and linguistic proficiency conceivably could fill these gaps.

Countries are increasingly aware of the need to attract talent at the high-skilled level, but policies and instruments to promote mid level skills are not as high on the policy agenda. Many European countries now focus on how to adapt migration policies to catch up with traditional immigration countries, like Australia, Canada, and the United States, to attract a more skilled workforce. However, there is a need for initiatives to explore how to prepare for, organize the mobility and provide the necessary training for mid-level skills given the current high demand on such skills and the likelihood that these will constitute the bulk of future labor shortages if no action is taken.

Tanzania to Enhance Transparency in the Extractive Industries

DAR-ES-SALAAM, March 16, 2009 - A lingering furore that has clouded Tanzania's mineral sector in recent years could soon be a thing of the past after the country committed to a global compact that aims to improve transparency and accountability in the extractives industries. The Extractive Industries Transparency Initiative (EITI) sets a global standard for companies to publish what they pay and for governments to disclose what they receive. Its implementation is likely to lead to more transparency over the revenues generated by the mining sector in Tanzania, where several key aspects of the mining industry have been shrouded in secrecy.

“Implementation of EITI in Tanzania sends a positive signal to investors that the country is serious about good management of its mineral resources,” the government declared in a statement. “Through EITI the Tanzanian people will be better informed about revenues generated by the mining sector - both where that money comes from and where it is being spent.”

Since gaining independence in 1961, Tanzania has attracted numerous international companies with its wide range of minerals, as well as potentially significant oil and natural gas deposits. The country also has substantial deposits of precious and semi-

precious metals, base-metals, ferrous metals and industrial minerals to satisfy domestic and international demand. Mining, in particular, has been a key sector in the economy of Tanzania for several decades. Between 1999 and 2007, annual gold output increased from five to 50 tons with an average annual growth rate of 38%, making Tanzania the fourth largest African gold producer. The value of formal exports of gold and total minerals has also increased steadily. Although its contribution to GDP is still small, at around 3.5 percent, mining is one of the most important foreign exchange earners for Tanzania.

But the mining industry has undergone immense criticism over the last decade. Among other things, the lack of sufficient information on benefits that accrue to the nation from mining activities has been a source of discontent. While information on mining revenue is currently available, for instance through the government budget, it is not easily identifiable nor is it reconciled, by an independent third party, with what companies paid to government.

This has frequently led to resentment and skirmishes between investors and local communities, often resulting in costly delays and disruption of activities, including physical damage to installations and equipment, harassment or intimidation of company staff in extreme cases. With public officials suspected of deriving personal benefits from investors, for example by soliciting bribes before granting mining contracts, lobbyists maintain that the country receives only a portion of the benefits of the extractive industry. Furthermore, the mining companies have been accused of environmental negligence subsequently endangering the lives of local communities.

A coalition of religious bodies in Tanzania alleges that officials have turned a blind eye to unpaid corporate taxes, causing a loss of revenue that could have been used to tackle poverty. According to their estimates, the country may have lost at least US\$265.5 million in recent years as a result of an excessively low royalty rate, tax concessions that allow companies to avoid paying corporate taxes, and possibly even tax evasion.

“This is a very conservative estimate,” the Christian Council of Tanzania (CCT), the National Muslim Council (BAKWATA) and the Tanzania Episcopal Conference (TEC) say in joint report titled “A Golden Opportunity? How Tanzania is failing to benefit from Gold Mining. “With such widely held perceptions of corruption in the mining industry, implementation of EITI in Tanzania signals an important opportunity to ensure that mineral resources are a blessing and not a "curse" for the country.

“It is no secret that the complex arena of deals and contacts in the extractive industry world are not always the most open,” concedes Adam Malima, the deputy minister for energy and minerals. “And in an ever increasing information liberal society where such contracts are under more intense scrutiny, EITI serves as an important instrument where governments and related departments operate with the knowledge that there will be

further analysis and evaluation of decision-making, long after agreements have been reached.”

In commending the government’s decision, the Chamber of Minerals and Energy says Tanzania’s joining of the EITI could not have come at a better time when the country was concurrently reviewing its Mineral Policy. The review follows work by a presidential commission, which recommended revisions to the legal, contractual, and policy regime governing the mining sector. “The commitment to EITI implementation sends a very strong signal to the investment community about the country’s intentions to improve transparency and the business climate,” said Emmanuel Jengo, the Chamber’s executive secretary.

“Indeed we view this as a step that can help improve the economic and social climate in the country and may also lead to an inflow of additional investment into the sector,” he added. As in all countries implementing EITI, a participatory approach has been adopted in Tanzania. Representatives of the government, industry and civil society in the form of a multi-stakeholder steering committee will work together to implement EITI. “Extractive industry companies, working together with government and civil society, is an opportunity to fill the knowledge-gaps which exist between the three groups, thus mitigating consequent accusations and mistrust that have been the case for the past decade,” Jengo said. “The reasons for Tanzania to engage are compelling in that EITI provides a means of engaging stakeholders to create a culture of accountability.”

Crisis Takes a Mounting Toll on Developing Countries

March 13, 2009—Bangkok cook Witaya Rakswong, 37, makes less than half of what he made two years ago as a sous chef at a luxury hotel. “If you spend it wisely, you’d be able to get by,” he says of his 10,000 baht (\$294) per month salary. His reduced wages have forced him to send 20 percent less money home to his mother.

Like Rakswong, people in developing countries are coping with less as the global economy shrinks this year for the first time since World War II.

Millions have lost jobs as mines and factories close and construction slows in formerly fast-growing countries amid possibly the largest decline in world trade in 80 years.

A new World Bank paper prepared for the G20 finance ministers’ meeting in Horsham , UK, this weekend warns that the financial crisis could have long-term implications for developing countries. Many developing countries face deteriorating financial conditions that threaten to reduce services for the poor such as health and education. The Bank estimates the financing gap for 98 countries at [\\$270-\\$700 billion](#). Only a quarter of vulnerable countries will have the financial resources to lessen the impact of the financial downturn with social safety net or job-creation programs, says the Bank.

The crisis could push 53 million more people into poverty in 2009, based on a daily income under \$2, and cause people to sell assets on which their livelihoods depend, withdraw their children from school, and suffer malnutrition, according to the Bank research.

Regional Snapshot

[East Asia and Pacific](#)

While East Asian countries entered the current crisis substantially better prepared than they were for the 1997 Asian financial crisis, they have experienced the sharpest trade losses, reflecting falling exports, price declines and currency depreciations, according to the [G20 background paper](#)(PDF).

China's exports are down 25 percent from a year earlier, the government reported March 11. The Ministry of Labor estimates some 20 million people in China are out of work.

China has begun to implement a \$586 billion stimulus plan. Several other countries in the region (notably Korea, Malaysia and Thailand) have proposed large fiscal stimulus packages for 2009 to compensate for the slowdown in export growth, according to the World Bank's [East Asia and Pacific Update](#).

[Europe and Central Asia](#)

Eastern Europe and Central Asia have been particularly hard hit by rapidly falling exports, foreign investment, remittances, and tightening credit, says the Bank's G20 paper. The World Bank Group joined forces with the European Investment Bank and European Bank for Reconstruction and Development to provide up to [€24.5 billion](#) to support the banking sectors in the region and to fund lending to businesses hit by the global economic crisis. Countries in the region could be further affected if remittances decline as expected, according to World Bank research. Several countries depend heavily on money from workers abroad and two are among the top global recipients of remittances, based on percentage of GDP: Tajikistan (45 percent) and Moldova (38 percent).

[Africa](#)

Initially shielded from the financial crisis, some low-income countries in Sub-Saharan Africa have come under fiscal pressure from the effects of lower commodity prices, a major source of government revenue, according to the G20 background paper. The steep drop in oil prices has impacted countries such as Congo, Equatorial Guinea, Gabon and Nigeria, where it generates more than half of all revenues. The drop in non-oil commodities has hit Cote d'Ivoire, Guinea, and several other countries, the paper says.

It says low-income countries in the region are heavily dependent on aid, but that even before the onset of the crisis, developed countries were falling short of pledges by about \$39 billion a year.

Middle East and North Africa

Like Sub-Saharan Africa, the banking sector in the Middle East and North Africa was less exposed to the financial crisis because it was less integrated in the world economy, notes the G20 background paper.

However, the biggest concern is with the impact on the real economy and people. Most MENA countries are already experiencing a marked decline in export growth as a result of the global economic downturn and lower oil prices. Some oil exporters with large populations but limited foreign reserves are expected to experience a decline of over 20 percent of GDP in their current account balance and a much reduced fiscal space to meet social needs. Countries that have grown to depend on jobs, remittances and FDI from Gulf countries, are already seeing signs of stress. Non-oil exporting, diversified countries with strong links with Europe in trade and tourism are likely to feel the greatest economic impact through the depressed European demand for imports and tourism spending and constrained foreign direct investment from Europe. These vulnerabilities raise the need for well-designed and adequately funded fiscal stimulus programs in many of MENA countries.

South Asia

When the financial crisis hit, South Asia had barely recovered from the global food and fuel price crisis last year, during which current account and fiscal balances worsened sharply and inflation surged to unprecedented levels, according to World Bank analysis.

The region is now particularly vulnerable to falling remittances from migrant workers in the Gulf countries, the G20 background paper says. It notes India registered its first ever year-over-year decline in exports (of 15 percent) following growth of 35 percent in the previous five months.

Latin America and the Caribbean

After five years of sustained growth (average of 5.3 percent per year), Latin America is feeling the impact of the global crisis mainly through the real economy. Slowing global growth, higher costs of international finance, weaker commodity prices, and falling remittances are hitting Latin America in the wake of the global slowdown. Industrial production is declining and GDP growth is slowing, according to the Office of the Chief Economist for World Bank's Latin America and Caribbean region. Brazil

reported its first trade deficit in eight years in December, as exports plunged 29 percent, says the G20 background paper.

New Economic Realities Confronting Developing Countries

Non-energy commodities—the main source of income for many countries—plunged 38 percent in the second half of 2008 as demand dropped. Oil prices fell 69 percent between July and December.

Global trade is collapsing as rich countries import less from each other and from developing countries that are heavily dependent on advanced country markets for their exports.

Private capital flows to emerging markets and developing countries are disappearing. The Institute for International Finance estimates such flows declined to \$467 billion in 2008, half of their 2007 level, and forecasts a further sharp drop to \$165 billion in 2009. Migrant workers are projected to send less money home this year, deepening poverty and inequality in many countries where remittances make up a large percentage of the GDP.

Official development assistance on which many low-income countries depend is uncertain as some donors signal a need to scale back their ODA budgets.

Expanding financial services for poor requires attention to data collection, measurement, conclude experts at World Bank conference

Washington, DC, March 13, 2009—Expanding access to financial services is a key element in any strategy that aims to reduce poverty in a developing country. A prerequisite for stronger policies in this area is more data from the national to the household level to draw a more accurate picture of how poor people currently use financial services.

At a two-day conference on “**Measurement, Promotion, and Impact of Access to Financial Services**,” which concluded today at the World Bank, **Her Royal Highness Princess Máxima of the Netherlands** spoke of the need to close large data gaps that are thwarting progress toward inclusive development.

“I’m sure that when I ask each of you to estimate the number of unbanked people in the world, I will hear answers ranging anywhere from half a billion to three billion people,” she said, speaking in her current role as a UN Advisor on Inclusive Financial Sectors to the gathering of academics and donors. *“The fact is that no one knows what that number really is. And without that number, it is impossible to identify the right policies or to track progress.”*

Conference participants agreed that having high quality, comparable data on access to financial services is important for three reasons: First, it helps identify priorities for policies; second, it allows researchers to monitor the effectiveness of policies over time; and third, it provides them a platform to better understand the impact of financial access on poverty reduction.

“We look forward to furthering a coordinated strategy with the International Monetary Fund, the Consultative Group to Assist the Poor, and the Inter-American Development Bank with respect to both data collection and subsequent comparability of results,” said **Asli Demirguc-Kunt**, Senior Research Manager for Finance and Private Sector Research at the World Bank.

Robert Cull, conference organizer, and a lead economist in the World Bank’s Development Research Group emphasized that *“Our efforts to scale up data collection should address issues such as comparability across surveys and across countries.”*

Steps are being taken in the right direction. Nevertheless, a paper using the existing financial access datasets from several populous countries in Sub-Saharan Africa, presented by **Patrick Honohan** and **Michael King** of Trinity College, Dublin, revealed that despite the common conceptual framework employed in each case, mapping the different questions asked in different countries into reliably consistent variables on a cross-country basis is difficult.

A number of scholars presented papers at the conference focusing on ways to further access. One paper by **Shawn Cole and Bilal Zia** discussed how financial literacy training has affected the use of bank accounts in Indonesia. Using two new surveys from India and Indonesia, Cole and Zia presented new evidence that financial literacy programs have no effect for the population overall, but have an important impact on the uneducated and financially illiterate households.

However, some participants voiced concerns about the appropriate content of such programs. They cautioned, with reference to the ongoing global financial crisis that originated in the United States, that too much access to finance can be counterproductive in the absence of the right regulations.

A paper by **Xavier Gine** and **Dean Young** looked at how biometric identification techniques have affected the financial services in rural Malawi. The study found that fingerprinting of borrowers can improve repayment rates for the worst risk borrowers and act as a catalyst for the establishment of a national credit bureau in Malawi and other developing countries.

Miriam Bruhn and **Inessa Love** of the World Bank, who presented a paper on grassroots banking in Mexico highlighted the finding that expanding access to finance to low income individuals can have a positive effect on economic activity by fostering the survival and creation of informal businesses.

A key recommendation from the conference was the possible establishment of a **central electronic data bank on access to finance**. Through such a databank, online data could be disseminated in a coordinated and centralized manner.

Development Finance Institution Meeting Seeks Closer Cooperation to Reduce the Impact of the Global Financial Crisis on Developing Countries

VIENNA, AUSTRIA, MARCH 12, 2009 —The world’s largest International Finance Institutions (IFIs) and Development Finance Institutions (DFIs) met in Vienna today to discuss closer cooperation in responding to the global financial and economic crisis and to share information on initiatives aimed at supporting banking, trade, infrastructure, agribusiness, and other key sectors in developing countries.

The meeting, hosted by the Development Bank of Austria, OeEB, and IFC, a member of the World Bank Group, brought together 14 institutions including the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), other World Bank Group members IBRD and MIGA, the African Development Bank, the Black Sea Trade and Development Bank, the OPEC Fund for International Development (OFID), the UK’s CDC, Germany’s KfW and DEG, the Japan Bank for International Cooperation (JBIC), the Netherlands’ FMO, Norway’s Norfund, and Spain’s Cofides.

Michael Wancata, Member of the Board of OeEB, said, “OeEB appreciates IFC’s initiative to bring together a number of DFIs to discuss harmonized activities. In times like this, Development Finance Institutions should assume an active role and demonstrate they are reliable partners to their clients.”

OeEB announced at the meeting that it will commit €20 million to the Microfinance Enhancement Facility, founded by KfW and IFC. The \$500 million fund will boost the available pool of refinancing available to the microfinance industry.

The African Development Bank announced that its Board has approved a three point action plan including an emergency liquidity facility of \$1.5 billion for the benefit of its medium income member countries, a \$1 billion trade finance initiative to support the needs of African DFIs and commercial banks, and an African Development Fund action plan.

OFID announced at the meeting that it will commit \$30 million to an Africa-focused sub-fund of the IFC Recapitalization Fund. The \$5 billion IFC Recapitalization Fund, founded by IFC and JBIC, will help ensure banks in developing countries can continue to lend and support economic recovery and job creation through the financial crisis.

Said Aissi, OFID's Assistant Director General for Operations, said, "Poor countries in Africa are suffering from a slowdown in economic development and a credit crunch which may bring millions of people to the poverty line. It is important for International Finance Institutions to provide social safety nets to alleviate the effects of this crisis as well as to help poorer sections of the population through microfinance. International Finance Institutions have also agreed to act collectively through providing finance to vulnerable banking systems, increasing investments in vital infrastructure and social sectors, and protecting trade finance. OFID is committed to supporting these initiatives alongside other IFIs. The Governing Board of OFID, which met this week, has approved an investment of \$30 million to a sub-fund of the IFC Recapitalization Fund which will make urgently needed investments to banks in Sub-Saharan Africa."

Jyrki Koskelo, IFC's Vice President for Europe, Central Asia, Latin America and the Caribbean, and Global Financial Markets and Funds, said, "We are encouraged to see an emerging global partnership taking shape to support recovery and particularly thank OeEB, OFID, JBIC, and KfW for their partnership on IFC's initiatives for bank recapitalization, trade, and microfinance. Mobilizing funds and ideas from across the finance and development community will allow us to deliver practical and timely responses to the crisis and limit its impact on the poor."

The DFI meeting in Vienna follows a Joint IFI Action Plan announced in February through which the EBRD, the EIB, and World Bank Group pledged €24.5 billion in support of the banking sector and lending to the real economy in central and Eastern Europe.

Upcoming events aimed at convening institutions from the multilateral, public, and private sectors, include the Summit of the Americas and the World Bank Group Spring Meetings in April.

About OeEB

Oesterreichische Entwicklungsbank AG (OeEB) has an official mandate from the Government of Austria and is specialized in the implementation of private sector projects which need long-term finance and which create sustainable development. OeEB provides tailor-made financing solutions for a diverse set of long-term investments that would otherwise find it difficult to raise funding or borrow money in international capital markets. The bank is mandated to assume higher risks on individual transactions (loan volume, tenors, high-risk countries), compared to commercial banks.

Additionally OeEB provides Technical Assistance, so-called Assistant Services which can be used to enhance the developmental impact of projects.

About OFID

The OPEC Fund for International Development (OFID) is an intergovernmental Development Finance Institution established in 1976 by member states of the Organization of the Petroleum Exporting Countries (OPEC). The primary aim of OFID is to contribute to the social and economic development of low-income countries. Cumulatively until December 2008, OFID had committed US\$ 10.3 billion in development financing to 121 countries in Africa, Asia and the Pacific, Latin America, the Caribbean and Europe.

15 Countries Study Reveals Strategies for Moving Out of Poverty

- 60,000 people take part in 15-country study on poverty in Africa, Asia and Latin America
- Even in desperately poor places, people retain initiative to survive and get ahead.
- Markets, roads, responsive local governments among factors encouraging upward mobility

March 11, 2009—In 13 years, Oy went from living in a shack to owning a house and farming her own land in rural Thailand. For years, Oy rose at 2 a.m. to sell other farmers' vegetables and fruit at the local wholesale market. Saving bit by bit, she and her husband bought land, a pickup truck, a car, and a proper house for the family. "All we had was perseverance and physical labor...From having nothing at all, we were able to have everything that we wanted." Oy was among 60,000 people in 15 countries interviewed for a new World Bank study that looks at how and why some people manage to escape poverty.

"Moving Out of Poverty: Success from the Bottom Up," like its ground-breaking 2000 predecessor [Voices of the Poor](#), paints a detailed picture of the constraints poor people face in trying to escape poverty.

Moving Out of Poverty finds that even in desperately poor or conflict-affected places, people retain initiative to survive and get ahead.

But the study of 500 communities in Asia, Africa and Latin America also concludes that people need opportunity, such as access to jobs and markets, to move out of poverty.

Crisis Driving 53 Million into Poverty

Many people fall into poverty because their assets and savings are lost or seriously depleted from a health shock, death in the family, or a decline in national or local economic prosperity. The World Bank estimates more than 100 million people became poor when food and fuel prices skyrocketed last year. [Some 53 million more people are being trapped in poverty](#) as the financial crisis spreads around the world.

“In the midst of the worst financial crisis since the Great Depression, we need to understand the dynamics of poverty better by listening to what the poor themselves have to say,” says Danny Leipziger, World Bank vice president for Poverty Reduction and Economic Management. “Their stories show us how it is possible to move out of poverty, especially when there are local opportunities available. But they also show how easy it is to become poor.”

Many People Fall Back Into Poverty

One of the study’s major findings is “there is no such fixed group as ‘the poor.’” Many people who move out of poverty fall back into it. In the studied communities in the world, close to half the population is moving up or down the socioeconomic ladder, often with the same people rising and then falling at different times. Typically, about three times as many people move up or down as the net number of people who move out of poverty.

Local Conditions Make a Difference

Even within countries with sustained high growth and falling poverty rates, some communities remained stubbornly poor while others emerged from poverty, the study finds.

Certain economic, social and political factors encourage upward mobility, including:

Overall economic prosperity (being able to find a job)

Presence of markets in a village

Proximity to cities and roads

Local government responsiveness

Conditions making it difficult to get ahead include a large proportion of poor people in a village, and deep social divisions in society that impede fair access to markets, facilities and services.

“Individual hard work and belief in self can take people far, but it cannot make up for lack of economic opportunity and blocked access to opportunity in the communities where poor people live,” says the study’s lead author Deepa Narayan.

Inner Strength and Confidence Called Key Factors

In contrast, Mamba, a 35-year-old farmer in Malawi, has no desire to leave his village despite droughts and periods of acute hunger. Despite all he has endured, he remains confident better times are ahead.

“I am an energetic man, and I believe that if I have fertilizer I can do better.”

In thousands of conversations with men and women in the study, inner strength and confidence emerged time and again as a key factor in moving out of poverty.

“Moreover, self-confidence increases quickly as poor people experience some success. In fact, poor people soon start looking very similar to the rich in their sense of confidence and strength,” says Narayan.

“We find little evidence that poor people are poor because of laziness or disinterest in work and savings.”

On the contrary, people in each country emphasized the “importance of hard work and of a healthy body to do hard work.”

Overall, some 78 percent of households in the study believe their children will be better off in years to come. That figure rises to 90 percent of households in Bangladesh, Senegal, Afghanistan and Andhra Pradesh, India.

Advice: Transform Markets and Focus on Local Communities

The study says development interventions should be carried out in ways that “respect and increase—rather than detract from—people’s confidence in themselves and their families.” Solutions should focus on local communities and seek to transform markets “so that poor people can access and participate in them fully.”

Keys steps include:

Scaling up and linking poor people’s livelihood activities to markets

Providing connectedness through roads, telephones, electricity and irrigation

Easing access to loans that can be used for production

Providing information, business know-how, and skills to connect to mainstream markets

In addition, “social protection programs should be generous enough to enable poor people to survive shocks and build assets to lift them out of poverty.”

Escaping Poverty Is Possible When There Are Local Opportunities for People with Initiative

WASHINGTON, March 11, 2009 – Even in the poorest areas of the world, moving out of poverty is possible when poor people’s individual initiative and hard work are matched by economic opportunities in their local communities, shows new World Bank research based on the views of thousands of poor people around the globe.

But according to *Moving out of Poverty: Success from the Bottom Up*, poverty reduction remains a challenge because many people fall back into poverty. In fact, across the studied (mainly rural) communities in the world, close to half the population is moving up or down the socioeconomic ladder, often with the same people rising and then falling at different times.

Moving out of Poverty: Success from the Bottom Up is the latest and most comprehensive study on attitudes about poverty since its predecessor, *Voices of the Poor*, was released in 2000. The study was carried out in 15 countries of Africa, East Asia, South Asia, and Latin America, and included interviews with more than 60,000 people.

“In the midst of the worst financial crisis since the Great Depression, we need to understand the dynamics of poverty better by listening to what the poor themselves have to say,” said **Danny Leipziger, World Bank Vice-President for Poverty Reduction and Economic Management**. *“Their stories show us how it is possible to move out of poverty, especially when there are local opportunities available. But they also show us how easy and quick it is to become poor.”*

The research also debunks some myths and prejudices about the poor, whom many see as passive and without ambition or aspirations. In fact, when asked by researchers how one could move out of poverty, nearly all groups, including disabled people, emphasized individual effort, self-reliance and initiative

“We find little evidence that poor people are poor because of laziness or disinterest in work and savings,” said the **lead author of the study, Deepa Narayan**. *“Even in very poor and conflict-prone areas, poor people seldom seem apathetic. Instead they take initiatives often pursuing many small ventures simultaneously to survive and get ahead.”*

The study says that the focus of poverty reduction strategies must therefore shift to increasing economic, social and political opportunities in the local communities where the poor live. These local opportunities include the provision of business know-how, basic access to health and education and the improvement of local governance. Local governments that are responsive and accountable have a critical role in creating the local conditions for households to escape poverty.

“Individual hard work and belief in self can take people far, but it cannot make up for lack of economic opportunity and blocked access to opportunity in the communities where poor people live,” said **Narayan**.

In addition, efforts must also be directed to preventing people from becoming poor in the first place when they sell off assets or become indebted because of illness, unemployment, natural disasters or more recently, the impact of the world financial crisis. New strategies are needed to increase their resilience through social and health insurance programs, as well as better access to credits, local markets and infrastructure projects.

Given the fact that countries can experience mass poverty – from one third of the population in India to more than 60 percent in Zambia—the study finds that although efforts to support self-help organizations of the poor may ease the pain of a few in the short run, “they are totally inadequate to lift entire nations or communities out of poverty.”

Other highlights and recommendations of *Moving out of Poverty* include:

Most poor people believe that markets work and want to do business on an equal and fair footing.

- Most poor people value democracy, which they equate with the freedom to vote, to think, to speak, to move, to protest and to work.
- Family is the most frequently mentioned institution that helps people accumulate assets.
- Microcredit can help the poor subsist from day to day, but in order to lift them out of poverty, larger loans are needed so that the poor can expand their productive activities and thereby increase their assets.
- Poverty reduction efforts need a “liberalization from below” that includes:
 - removing restrictive government regulations;
 - expanding access to markets, especially by providing connectivity through roads, bridges and telephones; and
 - integrating poor people’s businesses on fairer terms in new business models.

Ghana To Receive Up To US \$1.2 Billion In Interest-Free Loans From The World Bank Over The Next Three Years

ACCRA, 11 March 2009 – The World Bank will provide up to US\$1.2 billion in interest-free loans to Ghana over the next three years, and has launched a landmark initiative that challenges civil society organizations and other citizens’ groups to help deepen transparency and accountability by monitoring the implementation of Bank-funded projects in the country. The announcement came Wednesday in Accra, as the

World Bank's Vice President for Africa, Obiageli Ezekwesili, wrapped up a three-day visit to Ghana.

The target sectors for this future lending, according to the Bank's Country Director for Ghana, **Ishac Diwan**, are water and sanitation, agriculture and fisheries, energy, natural resource management, transport and budget support. The Bank, which is one of Ghana's leading development partners, indicated its readiness to assist the newly-elected Ghanaian government in any way possible to minimize the impact of the global financial meltdown and economic crisis.

At a meeting with the Ghanaian President, **Prof John Evans Atta-Mills**, **Ms Ezekwesili** discussed issues bordering on natural resource management as a key component of macro economic policy. She reiterated the importance of citizens' participation in the development processes in complementing government efforts in finding solutions to Ghana's macroeconomic challenges.

The Ghanaian President on his part noted that an important ingredient in dealing with macro economic problems is transparency and the need for citizens to know the true state of the economy and what the government is doing to solve the problems.

Commenting on her visit earlier, **Ms Ezekwesili** said: *"it is obvious that government and people of this country have been making tremendous efforts to lift themselves and future generations out of the vicious cycle of poverty and hardship, however, the impact of the current global financial crisis on Ghana calls for macroeconomic measures that would ensure that the growth that Ghana has enjoyed over the past decade and more is not negatively affected, but is rather sustained to help improve the standard of living of the people."*

During the visit, the Bank, in collaboration with a group of civil society organizations launched a new Social Accountability Initiative to monitor Bank-financed projects and programs of their choice. Three umbrella organizations – National Coalition of NGOs in Waste Management (NACONWAM), Coalition of NGOs in Water and Sanitation (CONIWAS) and a group led by the Integrated Social Development Center (ISODEC) – decided to monitor the Second Urban Environmental Sanitation Project (for NACONWAM), the Urban Water Project (for CONIWAS) and the Poverty Reduction Support Credits (for ISODEC).

Addressing participants attending a National Environmental Sanitation, where the Initiative was launched, Ezekwesili noted: *"Social Accountability is a very important tool for ensuring development effectiveness, and should be used not only to monitor government stewardship, but that of the Bank and other development partners as well."* She handed over project documents which are relevant for their monitoring exercises to the NGOs.

Currently, the World Bank-financed portfolio for Ghana is among the biggest in Africa, with 26 active projects which have an undisbursed balance of about US\$700 million of interest free loans, a sizeable proportion of which can be front-loaded. The Bank's private sector arm, the International Finance Corporation (IFC) has also provided assistance to businesses pursuing projects in the oil and gas, mining, banking, leasing, education, housing and SME sectors.

Op-ed: The Infrastructure that Kenyans Want

This piece first appeared in the Daily Nation on Feb. 13, 2009

A multi-donor study of 24 African countries finds that Kenya's infrastructure compares favorably with its neighbors, but still falls a long way short of what is needed to reach middle-income status.

Kenya has made some important progress in recent years, according to *Africa's Infrastructure: A time for transformation*—a diagnostic study by the World Bank and other partners, including the African Development Bank, African Union, Agence Francaise de Developpement, Department for International Development, New Partnership for Africa's Development, Public-Private Infrastructure Advisory Facility and Sub-Saharan Africa Transport Project..

The introduction of mobile telephony has brought 90 percent of Kenyans within range of a GSM signal, one of the highest coverage rates in Africa. Power sector reforms have led to major efficiency gains and put Kenya's power utility on a path to financial recovery. Road maintenance has been properly funded, saving huge amounts in road rehabilitation costs, since every dollar spent on maintenance saves four in rehabilitation.

But addressing some of the key infrastructure bottlenecks that remain could contribute much more to Kenya's economic growth.

Power remains Kenya's largest infrastructure challenge. In recent years, outages have led to economic losses of two percent of Gross Domestic Product (GDP) and imposed substantial costs on firms running back-up generators. To keep pace with growing demand over the next decade, Kenya needs about 1,000 MW of additional capacity and greater integration with power networks in neighboring countries, at a cost of about Kshs 80 billion per year.

The port of Mombasa is probably Kenya's largest single infrastructure bottleneck. Yet management improvements, investments in terminal facilities, and reform of critical road and rail interfaces can substantially increase transit through the port. Introducing a strategic investor, as Kenya Airways did with great success, may be a good way forward.

In telecommunications, the imminent landing of three submarine cables—SEACOM, the East African Submarine System (EASSy), and the East African Marine System

(TEAMS)—brings the potential to slash Kenya’s internet and international telecom charges by as much as half. To realize this gain, the Government does not need to spend any money; it just needs to make sure that there is healthy competition between the landing stations.

Access to household services remains low in Kenya, especially in poorer areas. In Kibera and Mathare, for example, only about 20 percent of households have access to essential services. Investments in infrastructure are crucial to improve living conditions in these areas, but these investments will not work unless the people living there have the opportunity to own their homes. In the poorer neighborhoods of Dakar, Senegal, where a majority own their homes, over 70 percent have access to essential services—even though they have much less income and education and much lower employment levels than their peers in Nairobi.

Infrastructure improvements added half a percentage point to Kenya’s per capita GDP growth over the last decade, but better spending could add as much as three percentage points to GDP growth. The good news is that Kenya in 2006 was already spending almost enough on infrastructure to achieve middle-income performance.

The infrastructure study estimates that this would require spending about Kshs 160 billion a year for ten years—only about KShs 16 billion more than it was already spending in 2006. What Kenya needs to do now is ensure that its infrastructure policies are sound and its spending directed to the right things: less on Information and Communication Technology (ICT), and more on road rehabilitation and power generation.

The Government has been moving in the right direction over the last few years. The journey has already begun.

The author is Johannes Zutt, World Bank Country Director for Kenya

Crisis Reveals Growing Finance Gaps for Developing Countries

Research shows poorer countries are short of \$270- \$700 billion for 2009 **Washington,**

March 8, 2009 —Developing countries face a financing shortfall of \$270-700 billion this year, as private sector creditors shun emerging markets, and only one quarter of the most vulnerable countries have the resources to prevent a rise in poverty, the World Bank said.

In a paper for next Saturday’s meeting of the Group of 20 finance ministers and central bank governors, the World Bank said that international financial institutions cannot by themselves currently cover the shortfall -- that includes public and private debt and trade deficits -- for these 129 countries, even at the lower end of the range. A solution will require governments, multilateral institutions, and the private sector. Only one quarter of vulnerable developing countries have the ability to finance measures to blunt the economic downturn, such as job-creation or safety net programs.

“We need to react in real time to a growing crisis that is hurting people in developing countries,” said World Bank Group President **Robert B. Zoellick**. *“This global crisis needs a global solution and preventing an economic catastrophe in developing countries is important for global efforts to overcome this crisis. We need investments in safety nets, infrastructure, and small and medium size companies to create jobs and to avoid social and political unrest.”*

The global economy is likely to shrink this year for the first time since World War Two, with growth at least 5 percentage points below potential. World Bank forecasts show that global industrial production by the middle of 2009 could be as much as 15 percent lower than levels in 2008. World trade is on track in 2009 to record its largest decline in 80 years, with the sharpest losses in East Asia.

The financial crisis will have long-term implications for developing countries. Debt issuance by high-income countries is set to increase dramatically, crowding out many developing country borrowers, both private and public. Many institutions that have provided financial intermediation for developing country clients have virtually disappeared. Developing countries that can still access financial markets face higher borrowing costs, and lower capital flows, leading to weaker investment and slower growth in the future.

“When this crisis began people in developing countries, especially those in Africa, were the innocent bystanders in this crisis, yet they have no choice but to bear its harsh consequences,” World Bank Managing Director **Ngozi Okonjo-Iweala** said in remarks prepared for delivery on Monday at a conference in London organized by Britain’s Department for International Development. *“We must look at poor people as assets and not liabilities. The new globalization should mean we adopt new ways of caring for our infants, educating our youth, empowering our women and protecting the vulnerable.”*

The paper said that 94 out of 116 developing countries have experienced a slowdown in economic growth. Of these countries, 43 have high levels of poverty. To date, the most affected sectors are those that were the most dynamic, typically urban-based exporters, construction, mining, and manufacturing. Cambodia, for example, has lost 30,000 jobs in the garment industry, its only significant export industry. More than half a million jobs have been lost in the last three months of 2008 in India, including in gems and jewelry, autos and textiles.

Many of the world’s poorest countries are becoming ever more dependent on development assistance as their exports and fiscal revenues decline because of the crisis. Donors are already behind by around \$39 billion on their commitments to increase aid made at the Gleneagles Summit in 2005. The concern now is that aid flows will become more volatile as some countries cut their aid budgets while others reaffirm aid commitments, at least for this year.

In remarks prepared for delivery at the same conference in London on Monday, World Bank Chief Economist and Senior Vice President **Justin Yifu Lin** said developed

countries should spend some of their fiscal stimulus in developing countries as the economic effect could be significant.

“Clearly, fiscal resources do have to be injected in rich countries that are at the epicenter of the crisis, but channeling infrastructure investment to the developing world where it can release bottlenecks to growth and quickly restore demand can have an even bigger bang for the buck and should be a key element to recovery,” Lin said in his prepared remarks.

Investment Climate in the Southern Mediterranean and the Middle East

March 2009 - A Forum was jointly organized by the European Commission, the European Investment Bank, the World Bank and International Finance Corporation (IFC) on March 4-5, 2009 in Rabat.

The goal was to take forward the discussions of the 1st Forum held in Cairo in November 2005, and to assess progress made and outline a path to deepen reforms further, with a view to establishing an institutional and regulatory framework more conducive to investment and business development.

The Forum brought together key stakeholders in investment climate reform that shared regional and global experiences and best practice focusing on priority areas of reform.

Participants included government officials, private sector representatives and other stakeholders from the region as well as international experts with first-hand experience in the field of investment climate reform.

Forum's participants dealt with four issues:

Facilitating Access to Finance in the MENA Region. This session considered policy, regulatory and institutional reforms that can broaden access to credit and create the basis for sustained growth and job creation.

Reforming Bankruptcy/Insolvency Systems. This session explored common problems with insolvency systems, the features of laws, institutions, and skills that need to be in place for a better system, and the experience of countries that have undertaken reforms.

Conditions of Success of Industrial Strategies. This session focused on the prerequisites to maximize the effectiveness of these interventions.

Land Markets in MENA region: The State vs. the Private Sector as Owner and Developer. This session considered how this enclave approach compares to comprehensive policy and institutional reform to allow private land and real estate markets to better develop.

History

In May 2004, the European Commission, the European Investment Bank and the World Bank signed a Memorandum of Understanding (MoU) aimed at enhancing coordination in the Middle East and Southern Mediterranean region. The MoU was joined in September 2007 by IFC.

In this framework, a number of activities have been carried out including the co-financing of operations, regular coordination meetings to identify potential linkages between policy and investment initiatives, the organization of conferences and workshops and coordination at the country level.

BUSINESS AND POLITICS IN THE MUSLIM WORLD
REPORT ON GLOBAL ISLAMIC FINANCE

January 01-February 20, 2009

M. Ibrahim

Presentation: March 25, 2009

Institute of Islamic Banking and Insurance, London News
First takaful product launched in US

Risk Specialists Companies, a subsidiary of AIG Commercial Insurance, announced that it is introducing a takaful homeowners policy, the first instalment in Lexington Takaful Solutions, which will be a number of Islamic product offerings for the US. The product has been released in conjunction with AIG Takaful Enaya, a Bahrain-based outfit. Its Shari'ah supervisory board includes well-known names such as Sheikh Nizam Yaquby, who also sits on the supervisory board of UK-based takaful operator, Principle Insurance.

The takaful offering for homeowners will be the first Islamic insurance product to be marketed in the US. Abdallah Kubursi, global head of AIG Takaful Enaya, described the undertaking as 'truly a global effort' and emphasised the commitment of the participants to offer consumers wider choice 'based not only on need but also social preference'.

IDB deepens support for struggling member countries

Islamic Development Bank (IDB), based in Jeddah, has announced plans designed to help Muslim countries through the global financial storm. The bank will issue bonds to collect funds from international markets to support member countries of the bank. This will help cushion against the predicted decline in foreign investment due to difficult credit conditions.

IDB has played an important role in propping up Pakistan's finances, with a \$200 million loan in November. It also recently signed two agreements with Egypt to provide \$169 million for projects for electricity and bird flu vaccine, of which \$159 million will help pay for Abu Qir power station. This is out of a total of \$2.8 billion in loans to Egypt so far, covering over 226 operations altogether.

Core principles shield Islamic banking from economic storm

Shari'ah-compliant financial institutions in the GCC have weathered the economic turmoil well, according to Moody's Investors Service. The ratings agency suggests this is not only a result of strong growth and a characteristically conservative approach, but also thanks to following core Islamic principles. Global Islamic banking assets grew about 27 per cent in 2007, and similar growth is expected to be shown for 2008. While 2009 is expected to be a tough year for Islamic finance, just as it is for conventional banking,

Anouar Hassoune, Moody's vice president and author of the report, suggests that Islamic banks will still benefit from a number of factors.

These factors include that credit portfolios are normally domestic, they are strong retail banking platforms with customers displaying a high degree of loyalty to Shari'ah-compliant banks, and they have a good capital base and ample liquidity. Moody's therefore predicts that the Gulf will continue to grow in 2009, though slowing, before assuming its upward march in a year and a half or so. It also suggests that the financial crisis has improved the reputation of Islamic finance, as a conservative, traditional approach to finance becomes more valued once again. Finally, Moody's explains that the prohibition in Shari'ah of speculation and *riba* (interest) has also helped Islamic financial institutions avoid the worst of the credit crisis. The Shari'ah-compliant banking market is not immune from problems around it, but seems to have the ability to withstand the storm.

Standardization for Islamic OTC derivatives

The International Swaps and Derivatives Association (ISDA) intends to make a template contract available in early 2009 for Islamic over-the-counter (OTC) derivatives. This move is expected to enhance growth opportunities for Islamic finance, and to provide a useful tool for risk management. The availability of the template contract should make time-to-market for Islamic OTC derivatives faster, by standardising legal terms and allowing parties to focus on the commercial side of the deal.

OTC derivatives are privately negotiated deals between investors and counterparties. According to the latest report from the Bank for International Settlements (BIS), the notional amounts outstanding of OTC derivatives continued to expand in the first half of 2008, with all types of OTC contracts reaching \$683.7 trillion by the end of June that year. Meanwhile, the gross market values (which measure the cost of replacing all existing contracts), stood at \$20.4 trillion for the same period (29 per cent increase). The current financial crisis is partly blamed on the global derivatives trade.

The exact volume of Shari'ah-compliant OTC derivatives trade is not known. However, it comprises only a small part of the industry, due to the nature of Islamic OTC trading. Shari'ah requires the underlying assets to be tangible, such as commodities, which excludes most mainstream derivatives instruments. The ISDA is working to standardise regulation across the GCC, which would start to address a major hurdle of Islamic OTC derivatives, namely that there is no uniform set of guidelines. There are one or two other moves in this direction, with Bank Negara Malaysia, that country's central bank, also encouraging greater standardisation.

Islamic banking spreads in Hong Kong

Malaysia-based CIMB Islamic has launched its first Shari'ah-compliant product in Hong Kong. It has signed the first transaction with Hong Leong Bank for its commodity *murabaha* deposit. The deposit will utilise crude, palm oil, metal and other tradeable

commodities as underlying assets. The Hong Kong branches of CIMB and Hong Leong are the first institutions based in Hong Kong to offer Islamic banking, and the Hong Kong Monetary Authority successfully gave clearance for the launch of the interbank money product.

The launch of this product marks the opening not only of an Islamic window in Hong Kong but also mainland China, as the group has acquired a 20 per cent stake in the Bank of Ying Kou in Liaoning province earlier this year. CIMB hopes to expand from Shari'ah-compliant wholesale banking to asset management, and will consider the viability of consumer banking. The latter might be difficult due to the thin geographical spread of Muslims in the country, the bank has indicated. CIMB obtained Bank Negara Malaysia's (central bank and regulator) approval to undertake Shari'ah-compliant banking operations overseas in December 2007.

Islamic finance has setback in UK, shows progress in France

The pre-budget report delivered by UK chancellor Alistair Darling in November ruled out the issuance of Islamic bonds (sukuk) by the government any time soon. The government confirmed it would legislate to help develop Islamic corporate debt. This came as a surprise, as observers had expected chancellor Darling to approve the UK's first Islamic debt instrument – the government had previously mentioned the possibility of issuing sukuk at the same occasion in 2007. Saxony-Anhalt, a state in Germany which launched a €100 million (\$126 million) Islamic debt programme in 2004, remains the only example of a sovereign sukuk issuance in Western Europe.

Meanwhile, Christine Lagarde, minister of finance of France, welcomed Islamic finance to the country at the 2nd French forum of Islamic finance held in Paris in November, echoing earlier positive sentiments. At least three Islamic banks are reported to be requesting accreditation to operate in France. These are Al Baraka Islamic Bank from Bahrain, Qatar Islamic Bank, which already has offices in London, and Kuwait Finance House. There is a huge potential market of over five million Muslims in France, and a survey conducted by the French Institute of Public Opinion (IFOP) in 2007 indicated that at least 500,000 would be interested in Shari'ah-compliant finance. Also reflecting France's potential is the opening of a new website, Finance Islamique France, the purpose of which is to boost the profile of Islamic finance and provoke debate.

OCBC's Islamic strategy takes shape

OCBC Al-Amin Bank Berhad, the Islamic subsidiary of Oversea-Chinese Banking Corporation (OCBC), has commenced operations in Malaysia with the opening of its first branch. According to the CEO of OCBC Al-Amin, Tuan Syed Abdull Aziz Syed Kechik, the entity will initially focus on the murabaha, mudarabah and ijara models. OCBC Al-Amin plans to open a further four branches through 2009. OCBC Bank Malaysia has operated Islamic windows in its conventional branches for 13 years, but the introduction of a fully-fledged Shari'ah-compliant subsidiary represents the second major phase of the

bank's development in Islamic finance. Islamic products will continue to be offered in OCBC's conventional branches.

OCBC Bank Malaysia's chairman, Tan Sri Dato Nasruddin Bahari, stated at the unveiling ceremony in November that the bank's Islamic services have been used by an even distribution of Muslims and non-Muslims, reflecting the broad appeal of Shari'ah principles. OCBC's Islamic banking customer deposits have recently grown at seven per cent annually, and Kuala Lumpur's status as a global financial hub has continued to strengthen, with Islamic banking accounting for about 17 per cent of Malaysia's banking assets according to Bank Negara Malaysia.

Consolidation in the Gulf

Amlak and Tamweel, two of Dubai's largest Islamic mortgage lenders, will be merged under a government-owned entity to form an Islamic real estate bank in a response to the global financial crisis. The firms had faced difficulties obtaining credit against a backdrop of falling prices in the property market. The combined value of the two firms will be AED2.5 billion (\$600 million), and the new entity, the largest real estate finance institution in the country, will be known as UAE Real Estate Bank. Pressure had grown on the government in Dubai to respond to the crisis.

This followed shortly after Amlak, whose shares have dropped by 80 per cent in 2008, stopped writing new loans, although Tamweel, whose shares had lost an even higher percentage, had continued to operate. Trading of shares in both firms was suspended for a day in November, as merger details were released. A similar agreement in Abu Dhabi then saw state regulators approve the merger of the new Real Estate Bank and Emirates Industrial Bank, which offers some Shar'iah-compliant services. The combined entity, dubbed Emirates Development Bank, will become the largest financial services company in the UAE.

Path Solutions' IT system gains approval of AAOIFI

iMAL, the Islamic core banking system from Path Solutions, a vendor based in Kuwait, has become the first core banking platform to be certified by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the international standard setting body. The certificate was presented to Path at the AAOIFI & World Bank Annual Conference on Islamic Banking and Finance, a yearly event organised by AAOIFI and held in Bahrain (where its headquarters are based).

According to Dr Mohamad Nedal Alchaar, AAOIFI's secretary general, the certification covers 'the iMAL modules, business processes, contracts, Islamic accounting principles, implications and behaviour'. Naji Moukadam, president of Path Solutions, says: 'The preparation and review started in April 2008 and took seven and a half months, during which different teams, each in their area of expertise, validated iMAL as well as the business processes and contracts to be compliant with AAOIFI's requirements.' The work involved product strategy, development and business development departments, as

well as corporate communications. The first meeting with AAOIFI's secretary general took place in May 2008 'to discuss the certification procedures'. Dr Alchaar states that the system 'has been thoroughly reviewed and has proven it truly deserves to be certified'. Moukadam is convinced that such recognition will give Path 'an additional edge over competitors'. He adds: 'It translates into fast-tracking processes and guaranteed compliance with Shari'ah as well as access to certified contracts, thus saving effort, cost and time for our customers.'

Path has always maintained that one of the key strengths of its flagship offering, iMAL ('i' stands for Islamic and 'mal' means money in Arabic), is its purely Islamic roots as opposed to the Islamic systems of other vendors, which were converted from conventional ones. In Moukadam's view, this factor played a significant role in obtaining the AAOIFI's approval and secured Path's 'pole position in the battle for survival' in the current tough economic climate.

Global financial unrest has not stopped the vendor from gaining a host of new deals in 2008, across the Middle East and further afield in Africa and South East Asia. The most recent wins are at Al Jazeera Islamic co, a subsidiary of Qatar Islamic Bank in Qatar, Khalijia Invest, an investment firm in Saudi Arabia, and Elaf Bank, a Shari'ah-compliant wholesale bank in Bahrain.

Yousif Janahi, head of information technology at Elaf Bank, says that 'based on the life cycle and the IT needs at our bank, we found that the iMAL product is the most Shari'ah-compliant product, and is mostly comprehensive and user-friendly'. Elaf Bank had undertaken a detailed study of the products on offer from four international vendors, Temenos, Misys, International Turnkey Systems and Path, before selecting the iMAL product, and should be live with it by March 2009.

German bank ties up with Al Salam Investment

Al Salam Investment in Dubai, which has identified Islamic finance as a big driver for the regional financial sector, has launched a major initiative and signed an agreement to partner with Germany-based HSH Nordbank, specialising in shipping and renewable energy finance. The agreement initially covers the GCC but the intention is to expand throughout MENA in future. The partners are expected to set up a joint venture in 2009, operating on Islamic principles. No details have been provided, though a venture is likely to be registered in the Dubai International Financial Centre. Al Salam Investment's CEO, Pegman Haghshenas, said: 'Islamic finance can become the catalyst that restores the deal flow, previous levels of transactions and ultimately the confidence in the financial system needed to reverse the move away from growth.' Haghshenas went on to explain that the Middle East will be a region of change and opportunity, and the partnership is a way of ensuring Al Salam Investment is well placed to capitalise on it.

For HSH Nordbank, this collaboration 'opens the door to opportunities that cannot be found elsewhere at this time', according to director Michael Bresges. German interest in

Shari'ah-compliant finance follows on from the issue of sovereign Islamic debt by Saxony-Anhalt (one of the sixteen federal states that make up Germany) a few years ago.

Asian Development Bank News

ADB, Japan to Help Indonesia Combat Malnutrition through Food Fortification

23 March, 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) and the Government of Japan will support efforts in Indonesia to reduce iron-deficiency anemia (IDA) among the poor by providing them with iron-fortified rice. ADB's Board of Directors approved a second grant on food fortification for Indonesia. The [US\\$2 million grant](#) from the [Japan Fund for Poverty Reduction](#) will help to assess the feasibility, cost, and impact of providing iron-fortified rice under Indonesia's subsidized rice program, RASKIN. RASKIN, one of the largest programs of its kind in the world, was set up by the Government of Indonesia during the 1997 Asian Financial Crisis to cushion the effects of rising prices and declining employment. Through RASKIN, the central government's National Procurement Corporation buys rice and local governments distribute it to low income families.

The first grant from the ADB, approved in February 2005, assisted in the development of multi-micronutrients that could be used to fortify foods and prevent IDA, as well as fortified palm oil with Vitamin A. The second grant will address IDA in poor populations and will specifically assess the most cost-effective technology for rice fortification. It will also help to build capacity to produce fortified rice concentrate, provide equipment to rice mills supplying the RASKIN program, and create awareness of the benefits of iron-fortified rice among decision-makers, the private sector and RASKIN recipient households.

Most rice fortification programs tend to be commercial and target high and middle income households, who are informed and willing to pay a premium for more nutritious rice. The poor, who are most dependent on rice and most at risk of anemia, have yet to be reached. IDA is the most widely prevalent nutritional deficiency in the world. It can raise the incidence of diseases and stunt physical and mental development of children, among others. IDA has a direct impact on poverty, especially through its impact on school participation and learning.

"Adding iron, folic acid, Vitamin A, and other micronutrients to staple foods like rice is one of the most sustainable and cost-effective ways to deliver key nutrients to the poor," says Barbara Lochmann, Senior Social Sector Specialist of ADB's Southeast Asia Department. "The project will develop lower cost applications for rice fortification technologies and demonstrate cost-benefit evidence to demonstrate the potential returns on public investment in rice fortification." The project aims to deliver in one year around 24,000 metric tons of fortified rice to 800,000 people in two project areas. Small-scale rice fortification has been previously pilot-tested in Brazil, People's Republic of China, Colombia, India, and the Philippines.

The Japan Fund for Poverty Reduction is a grant facility set up in 2000 by the Government of Japan and ADB which provides direct support to poor communities.

National Agro Foundation Targets New Green Revolution for India's Rural Poor

20 March, 2009

MANILA, PHILIPPINES - The National Agro Foundation is putting in place agricultural technologies and livelihood and training programs that have the potential to benefit millions of small farmers in India, says Foundation Managing Trustee S. S. Rajsekar. Mr Rajsekar, who is the son of Shri C.S. Subramaniam, the architect of India's 'green revolution' in the 1960s, gave a presentation on the Foundation's work at Asian Development Bank (ADB) headquarters today.

The Foundation is a charitable trust dedicated to improving the lives of rural families. It operates in the state of Tamil Nadu where it has a research and development center, including state-of-the art laboratories for soil and food testing, and another facility dedicated to training. It has had significant success in adapting and bringing technologies out of the laboratory and to poor rural communities who are facing the challenges of shrinking available land and growing food demand, says Mr. Rajsekar. The adaptation of technologies to suit local conditions has sharply improved yields and farmers' incomes. A livestock development program has also had success with a big increase in milk output.

Livelihood and training programs have been set up to provide new income generating options, while community self-help groups have been established to boost social networks. The Foundation, which partners with government, corporate entities, non-

government organizations (NGOs), research institutions and individuals, has also helped train bankers on how to effectively interact with rural communities.

Following today's presentation, participants discussed contract farming and how it could benefit small farmers; the need for subsidies to farmers for services such as soil testing; how to address underinvestment in agriculture; and ways to implement integrated rural development projects through local NGOs.

ADB, Japan Help Bangladesh Tackle Climate Change Challenges

18 March, 2009

MANILA, PHILIPPINES - Flood-prone Bangladesh is getting support from Japan and Asian Development Bank (ADB) to tackle the huge challenges posed by climate change over the coming decades. ADB's Board of Directors [approved a technical assistance grant of US\\$2 million](#) from the [Japan Special Fund](#) to beef up the capacity of government agencies carrying out a 10-year Strategy and Action Plan that addresses food security, disaster preparedness and other key issues linked to climate change.

Bangladesh, with its low-lying delta and typhoon-prone location, is susceptible to extreme weather events. In recent years, the country has seen higher-than-normal temperatures, heavier monsoon rains and an increasing number of tropical cyclones and storms linked to climate change. With temperatures expected to keep rising over coming years, it is estimated that average sea levels may rise by around 30 centimeters by 2050 and could make about 14% of the country highly vulnerable to flooding.

“This assistance will help put the country on a low carbon economic growth path, make it more climate-resilient and help strengthen its food and energy security,” said Zahir Ahmad, Project Implementation Officer for ADB's Bangladesh mission. Along with building up the capacity of the Ministry of Environment and Forests and other government agencies, support will be given to develop specific climate change mitigation and adaptation programs and projects. A sub-program will also be put in place to attract private sector businesses and other stakeholders to invest in clean energy projects eligible for carbon credits under the Kyoto Protocol's Clean Development Mechanism.

Without addressing the impacts of climate change, Bangladesh is likely to see more hunger and increasing conflict as scarce natural resources dwindle even further in future.

The full cost of the technical assistance is estimated at \$2.5 million with the Government making an in-kind contribution of \$500,000. It will run for two years, starting in August 2009, with the Ministry of Environment and Forests the executing agency.

The Japan Special Fund is financed by the Government of Japan and is administered by ADB.

World Bank News

Development Marketplace Grant Competition Launched for Innovative Climate Adaptation Solutions

WASHINGTON, March 23, 2009 – The 2009 Global Development Marketplace (DM2009) today launched its annual global search for innovative local projects and project ideas, with the focus this year on how to help poor and vulnerable communities disproportionately affected by current and predicted climate threats. Innovating organizations from civil society, governments, and the private sector are invited to submit project proposals online from today to May 18, to enter the competition for grants provided by the World Bank Group, the Global Environment Facility (GEF) and other partners.

The 2009 competition focuses on three themes:

- Climate adaptation and disaster risk management
- Climate risk management with multiple benefits
- Resilience of indigenous peoples communities to climate risks

“The Development Marketplace is an important opportunity to empower innovators at the local and community level and learn from their high quality work” said **Katherine Sierra, Vice President of Sustainable Development at the World Bank**. *“We know that local innovation and community-based knowledge can provide answers to major development challenges, including adaptation to climate change.”*

An award pool of more than US\$5 million will support 20-25 projects. Typically, DM competitions attract nearly 3,000 applicants, from which about 100 finalists are selected. Finalists competing for grants will be invited to the Development Marketplace held November 3-5, 2009, in Washington, D.C.

"It is the poorest countries and communities that suffer the most because of their geographical location, low incomes, and low institutional capacity as well as their greater reliance on climate-sensitive sectors like agriculture. Adapting to climate risks and change therefore is increasingly important in developing countries," said **Monique Barbut, Chairman and CEO of the GEF.**

Development Marketplace is a competitive grant program that identifies and funds innovative, early-stage projects with high potential for development impact. Since its inception in 1998, DM has awarded roughly US\$54million to more than 1,000 projects through global, regional and country-level competitions. Using DM funding as a launching pad, many projects scale up or replicate elsewhere winning prestigious awards for social entrepreneurship.

Held every 12-18 months, the global competition features an open and transparent selection process that involves hundreds of development experts from inside and outside the World Bank.

"The Development Marketplace has already established itself as one of the world's top competitive platforms for innovative approaches to fighting poverty and promoting sustainable development," said **Sanjay Pradhan, Vice President of the World Bank Institute.** *"Now that the Development Marketplace has joined us, the Institute is positioned to connect these innovators with those who can apply and scale up what they have conceived."*

DM2009 competition is open to applications from non-governmental organizations, civil society groups, foundations, governments, private businesses and development agencies based in the country of implementation. Other applicants can apply only with the participation of a local partner.

Results of Administrative Reform in 2008, and Plans for 2009, by Klaus Rohland

The potential of public administration reform to enhance Government's response to the economic crisis.

[Conference on Administrative reform, March 19, 2009](#)

The global financial crisis and economic downturn has called for an increased role of the government sector. Not only in Russia, governments worldwide face the challenge of developing effective policy responses in the face of increased economic pressure. Better governance and improved public sector management are particularly significant issues in the current economic atmosphere. Tighter fiscal constraints have intensified the Government's interest in improving the use of public resources, and on improving its technical efficiency in the delivery of public services. Fiscal discipline, to be supported through more efficient and strategic management decision processes and reforms related to the role of the state in the economy, is critical in the current atmosphere.

We are very encouraged to see that, despite the urgency of taking prompt anti-crisis actions, the Russian Government has not diverted its attention away from the ongoing public administration reform agenda. The Russian Government fully understands shortcomings in public sector management have the potential to negatively impact Russian private investment, growth and poverty reduction efforts. Therefore, we see that both the federal and sub-national authorities are intensifying their efforts in this area. This is exemplified by today's attendance of high level representatives of over 70 regions as well as most federal executive authorities.

Let me take this opportunity to confirm that the World Bank will continue to fully support the Russian government's ongoing efforts in public administration reform at this difficult time and beyond. In cooperation with the UK Department for International Development (DFID), the World Bank has been supporting public administration reform in Russia since 2004. The World Bank is uniquely placed in that its staff has experience working in countries all across the globe. This experience and global knowledge has been brought to Russia on request of our counterparts. Later in this conference, for example, we will have a distinguished expert from Brazil, whom the Bank has invited on

the request of the Russian Government, to share his country's experience of citizen service centers.

Efforts in public administration reform are already bearing fruit, including the strengthening of federal and sub-national authorities' capacity to respond to the crisis quickly and effectively. For example, the Government's progress in using performance management concepts as a decision-making tool can assist the Government in selecting appropriate anti-crisis measures. Systematic monitoring of the effectiveness of anti-crisis measures and a stronger linkage with the budget process should help ensure that scarce budgetary resources can be reallocated to activities with the most impact in a timely manner. At this time more than ever it will be very important for all responsible Government bodies to work closely together in a fully coordinated manner.

Likewise, ongoing initiatives to improve public service delivery have much potential to help the anti-crisis policy responses to make a timely impact on Russian citizens and businesses, whose welfare and livelihoods are at risk. Initiatives such as the Multi-Functional Service Centers can make vital public services such as employment and social protection programs more accessible to citizens who need them, especially at this difficult time. At this time it is also especially crucial to take prompt action to ease the operation of businesses, especially small and medium-sized firms, whose survival is at risk. At the same time, support for small business development, which many regional governments have recently launched, can indeed help mitigate the impact of the crisis by encouraging greater employment through entrepreneurship. Such support need not be limited to financial support for businesses; steps to facilitate small firms' interaction with the state authorities can be equally important.

International experience suggests that reducing administrative barriers to business activity allows business to spend less money and time on meeting administrative and regulatory requirements. For example, in Greece, where some of you have visited as part of our program last year, the issuance of business licenses through one-stop-shop service centers has reduced business costs by 80 percent. This has been proven to result in more efficient allocation of resources to the real sector of the economy.

At the same time, such initiatives for streamlined service delivery to citizens and businesses result in substantial savings of public expenditures, which continue in the long

run. Once one-stop-shop service centers are operational, the cost of service delivery declines [as such centers have the capacity to handle an increasing range of services with essentially the same level of resources]. For example, in Greece the cost of service delivery has dropped by 44 percent (in nominal terms) per administrative procedure in the past 5 years, even though the number of services provided by citizen service centers has increased.

Finally, efficient service delivery mechanisms such as one-stop shops help build public confidence in public authorities. Increased confidence on the part of businesses can encourage economic activity to come out of the grey sector into the formal economy, thereby boosting government revenues. Last but not least such transparent, streamlined service delivery mechanisms reduce opportunities for corruption and enhance citizen satisfaction with public services. This is an important element in any governance-related effort.

Morocco : First World Bank Project in the Solid Waste Management

March 2009 - As the first [Development Policy loan](#) (DPL) in the solid waste sector Bank wide, this is the first experience that can lend itself feasible to other urban economies. This project is designed to improve transparency, competitiveness and accountability for sustainable and cost-effective private sector participation and to pave the way from “**cleanliness**” to “**integrated solid waste management**”. This project will rely on partnerships between the central government, municipalities based on a clearly defined incentive mechanism against performances and results.

Complementing the DPL, an additional [carbon finance](#) operation will allow access to Moroccan municipalities into the international carbon market. Generating revenues to the sector through Carbon trade is an added incentive to municipalities and an opportunity for these local administration units to contribute to global climate change efforts.

Impact of solid waste in Morocco. For the past few years, the Middle East and North Africa (MENA) region through the [Mediterranean Environmental Technical Assistance Program](#) (METAP) conducted analytical work that revealed how much poor solid waste management contributed to the cost of environmental degradation. With 0.5 percent of

GDP, Morocco had one of the highest levels in the MENA region compared to 0.2 percent in Egypt and 0.1 percent in Algeria, Lebanon, Syria and Tunisia.

The government's reform. The Moroccan government highlights social and environmental aspects as key features of the solid waste sector reform:

In 2006, Morocco enacted its **first law on solid waste management** developing integrated and affordable solid waste management systems and mitigating negative impacts of the sector on public health and the environment. A 15-year old **national solid waste program** is being planned in 3-phases to support enforcement of the Law. Among its objectives: service and disposal standards for urban areas, quantitative goals for collection coverage (90 percent by 2021), the introduction of sanitary landfills (100 percent of urban areas equipped by 2021), and the closure and rehabilitation of 300 existing open dumps as well as the promotion of solid waste reduction, recovery and valorization.

Indonesia: Dam Operational Improvement/Safety (DOISP)

WASHINGTON, March 19, 2009 - The World Bank's Board of Executive Directors today approved the following project:

IDA Credit: US\$50.0 Million

Terms: Maturity = 24.5 years; Grace period = 9

Project Description: The project will assist the Government of Indonesia to (i) increase the safety and the functionality with respect to bulk water supply of large Ministry of Public Works-owned reservoirs; and (ii) strengthen the safety and operational management policies, regulations and administrative capacity of Ministry of Public Works.

Morocco: Solid Waste Sector Development Policy Loan (DPL)

WASHINGTON, March 19, 2009 - The World Bank's Board of Executive Directors today approved the following project:

IBRD Loan: Euro 100 Million

Terms: Maturity = 26 years; Grace period = 4

Project Description: The proposed Solid Waste Development Policy Loan will provide budget support and assist the Government of Morocco to implement a program of reforms aimed at improving the financial, environmental, and social performance of the

municipal solid waste sector in Morocco. Specifically, the DPL will support government policy, and legal, regulatory, and administrative reforms in the areas of governance of the municipal solid waste sector, the sustainability of municipal solid waste management services, and the mainstreaming of social and environmental considerations into solid waste investments.

Morocco: The World Bank Approves the First Development Policy Loan in Support of the Solid Waste Sector

Washington 19 March, 2009- The World Bank’s Board of Executive Directors today approved a Municipal Solid Waste Sector Development Policy Loan in the amount of US 132.7 million.

As the first Development Policy Loan (DPL) in the solid waste sector to be approved by the World Bank, this is a very unique experience that can lend itself feasible to other urban economies particularly middle income countries seeking an environmental branding for global integration. *“Yet this DPL was not born yesterday,”* **added Jaafar Friaa, Senior Environmental Specialist and task Team Leader.** For the past few years, the MENA region through the Mediterranean Environmental Technical Assistance Program conducted analytical work that revealed how much poor solid waste management contributed to the cost of environmental degradation.

In 2006, Morocco enacted its first law on solid waste management establishing the principles that will govern the management of the sector. The new Moroccan policy highlights social and environmental aspects as key features of the solid waste sector reform. This DPL aims to support solid waste strategic planning and improve the economic, environment and social performances of the municipal solid waste sector. Complementing the DPL, an additional carbon finance initiative will generate revenues to the sector through carbon trade offering these local administration units an opportunity to contribute to global climate change efforts.

In order to succeed, this project will rely on partnerships between the central government, municipalities based on a clearly defined incentive mechanism against performances and results. Meanwhile, the supported program is designed to improve transparency, competitiveness and accountability for sustainable and cost-effective private sector participation. *“The new Country Partnership Strategy -which is currently underway- is*

seeking innovative ways where the World Bank Group can support the Moroccan vision for governance, creating opportunity for the private sector and at the same time sustainable management of natural resources,” said **Mats Karlsson, World Bank Country Director for Algeria, Tunisia, Morocco and Libya.**

Youth in the Middle East and North Africa: an asset for development

The bulging youth population is an asset that if properly nurtured can stimulate economic growth and social development in the region

• A Policy Toolkit was produced for advice to governments on how to create and implement effective policies for at-risk youth.

March 2009 – The MENA region is often known for its abundance of natural resources such as oil and natural gas. Investments in these resources have also spawned impressive growth throughout the years. The region however has another important resource for growth: youth.

Youth: an undervalued asset

The Bank’s study "[Youth, an Undervalued Asset: Towards a New Agenda in the Middle East and North Africa](#)" asserts that the bulging youth population of MNA region is an asset that if properly nurtured can stimulate economic growth and social development in the region. The report finds that today MENA has remarkably improved access to education and has been able to close the gender gap at all levels. However, the quality and relevance of the **education system**, vis-à-vis the demands of the labor market, appear weak. This mismatch often results in unemployment or **low quality employment** among youth. Unemployment among youth in the region is the highest in the world, averaging more than 25 percent with many relatively well-educated first-time job seekers among them. The informal sector is becoming also a growing source of jobs for youth.

Migration within and without the region is significant, with youth as its primary actors. Estimates say that among middle income countries, “brain drain” may be more pronounced in the MENA region.

MENA countries have achieved significant improvements in terms of **health** outcomes, however an array of health-related issues still affect the youth of the region. In particular, early marriage and early childbearing with the associated health risks still remain significant, especially within certain population groups. While women are still forced in some cases to marry early, many men instead have to delay their full transition to adulthood as the lack of jobs or low paying jobs and rising house prices make the costs of marriage unaffordable.

The current youth bulge creates a window of opportunity during which economies can benefit from a majority of individuals entering their productive peak, while the share of the population that is very young and the elderly still remains fairly small, creating important possibilities for enhanced growth. Countries have successfully taken advantage of young populations. For example, in East Asia between 25 and 40 percent of the rapid growth that took place between 1965 and 1990 in Japan, Hong Kong (China), the Republic of Korea, and Singapore has been attributed to the higher growth of the working age population. For most MENA countries, the window of opportunity will remain open for at least the next 10 years, and for countries like Yemen, Iraq and West Bank and Gaza the window will remain open beyond 2050.

The potential exists to reap tremendous benefits from ensuring that youth have the health, skills and means to productively contribute to growth. However, if investments are not made in youth, the report argues, there is a risk that the youth bulge may manifest itself as a drain on growth and society, rather than a dividend.

A Policy Toolkit for Supporting Youth at-Risk in Middle Income Countries

This Policy Toolkit was produced by a team of World Bank experts for advice to governments on how to create and implement effective policies for at-risk youth.

The Toolkit highlights 22 policies that have been effective in addressing the following 5 key risk areas for young people around the world:

Youth unemployment and underemployment; early school leaving; risky sexual behavior leading to early childbearing and HIV/AIDS; crime and violence; and substance abuse.

The Toolkit is composed by 5 sections:

1. Background, rationale, definitions and conceptual framework
 2. Core Policies consisting of expanding integrated early child development for children from poor households
 3. Policies focusing on helping those affected by risky behavior to recover and return to a safe, productive path to adulthood.
 4. General Policies addressing critical risk factors at the community and macro levels.
 5. “Moving from a Wish List to Action.” This section presents strategies and tools for turning these policy recommendations into a well-designed and well-implemented youth portfolio.
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Keeping up trade in a crisis

March 18, 2009 — The current economic crisis is unprecedented because it started in the financial sector. *“Only now are we starting to feel the impact in the real sector; we are now going to feel the impact in real assets.”* In Singapore on February 16 to speak at a special meeting of senior officials from the Asia-Pacific Economic Cooperation (APEC) countries, **Scott Stevenson, manager of the Global Trade Finance Program (GTFP) at the International Finance Corporation (IFC)**, also spoke to about 150 Singapore-based companies including over 50 banks at an event organised by International Enterprise (IE) Singapore about the program.

Begun in 2005 to encourage trade in new or challenging markets, the Global Trade Finance Program offers risk mitigation in the form of AAA guarantees to international banks to cover trade related transactions. In the current crisis situation, where companies

may have orders to fill and ship out but are not getting the pre-export financing that they need from banks, this facility has been expanded. The GTFP has seen its ceiling double to \$3 billion; and counts 142 banks in 71 countries as part of the program.

Stevenson said that it is crucial to ensure that financing for trade is sustained, because of the huge development role that trade plays. *“No emerging market has ever been able to bring itself up without trade. We’re seeing a time where trade is down and liquidity is down and risk perceptions are high. You need a program that can respond quickly.”*

While there was no need in the past for the GTFP in a place like Singapore, with sources of financing drying up, the IFC is now speaking with Singapore banks about signing up to the program as confirming banks.

During these challenging times, IE Singapore, the key government agency responsible for promoting the overseas growth of Singapore-based enterprises and international trade, is also stepping up efforts to help companies tide over the crisis by enhancing its financing schemes available. In addition, it is working closely with international organizations and the private sector arms of these agencies, such as the IFC, to raise awareness of the financing tools they offer. The Global Trade Finance Program is one such example

Said G Jayakrishnan, Deputy Director of International Organisations Division, IE Singapore, *“Trade is a very important aspect of Singapore’s economy. We understand that companies are facing credit tightening issues and agencies like the IFC can come in to provide risk mitigation products or other alternative financing instruments required for their trade and investment purposes.”*

IFC responds to the financial crisis

The GTFP is just one of the instruments that the IFC uses in encouraging private sector development in tough situations. In light of the current financial crisis, the IFC is working with the Japanese government to set up a \$2 billion fund to help emerging economy banks facing capital strain. In addition, to ensure that the financial crisis does not disrupt infrastructure development in developing countries, the IFC is working with the German government and several other European countries to set up an infrastructure crisis fund.

The IFC is also ramping up its well-established advisory services, and shifting the focus to dealing with issues of solvency, access to credit, corporate governance and infrastructure. The IFC has also just set up, in conjunction with German Development Bank KfW, a \$500 million facility to help microfinance institutions continue lending to the poor.

Bangladesh: Higher Education Quality Enhancement Project

WASHINGTON, March 17, 2009 - The following project was approved today by the World Bank's Board of Executive Directors:

IDA Credit: US\$81 Million

PROJECT DESCRIPTION: The **Higher Education Quality Enhancement Project for Bangladesh** aims to improve the quality and relevance of the teaching and research environment in higher education institutions through encouraging both innovation and accountability in universities, and by enhancing the technical and institutional capacity of the higher education sector. There are four components to the project: promoting academic innovation; building institutional capacity; raising the connectivity capacity of the higher education sector; and project management support.

China's economy holding up well despite major hit from global financial crisis, says World Bank

BEIJING, March 18, 2009 – 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 today.

The 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.

The Update warns that a 6.5 percent growth rate is significantly lower than potential growth. The resulting spare capacity is therefore likely to lead to weaker market-based investment, less job growth and migration, downward pressure on prices, redirection of exports to the domestic market, and import substitution in the coming years.

However, China is still likely to continue to outgrow most other countries, the Update says. Domestically, amidst the solid macroeconomic fundamentals, stimulus policies help dampen the downturn by providing support for activity and sentiment. Banks are keen to help finance growth, after having deleveraged in recent years. Private consumption has been fairly resilient so far and should be able to continue to grow significantly, while government-influenced investment is accelerating already.

“China is a relative bright spot in an otherwise gloomy global economy,” said the **World Bank’s country director for China, David Dollar**. *“Shifting China’s output from exports to domestic needs helps to provide immediate stimulus while laying the foundation for more sustainable growth in the future.”*

He said that subdued prospects for the global economy—and thus for exports—increased the importance of boosting domestic demand and domestic consumption, which is also key for rebalancing. Recent initiatives to stimulate consumption and improve people’s livelihoods by expanding the government’s role and spending on health, education, and social protection measures are welcome and there is room to do more.

The update notes that China’s economic fundamentals are strong enough to look beyond 2009. So far, the policy response to the downturn has emphasized stimulating investment to help achieve the short term economic targets. Given the fiscal space, there is a strong case for expansionary policies. But there may be a case for less emphasis on short term growth and more on longer term issues.

“Somewhat lower growth is not likely to jeopardize China’s economy or social stability,” said **Louis Kuijs, the report’s main author and senior economist**, *“especially not if the adverse consequences of the downturn for employment and people’s livelihoods can be limited through the social safety net, preferably combined with education and*

training.” Less emphasis on targeting short term GDP growth would allow for more emphasis on the rebalancing and reform agenda and the quality of growth, Kuijs said.

The Update also highlights the importance of financial sector reform. With inflation prospects subdued, there is scope for accommodative monetary policy. Deflation is a risk in principle, but policymakers have some tools to fight it. Further structural reforms in the financial system would help China manage the downturn and make the transition to a rebalanced growth model.

Egypt: World Bank Supports the Egyptian National Railways Restructuring Project

WASHINGTON, March 17, 2009 - **The World Bank’s Board of Executive Directors today approved a loan in the amount of \$ 270 million to support the Egypt National Railways Restructuring Project (ENRRP).**

The objective of ENRRP is to support the strategy of the Government of Egypt for improving the reliability, efficiency and safety of the railways’ services through signaling and track renewal investments by Egyptian National Railways (ENR) and the modernization of its management and operating practices in order to enhance the railways’ sector responsiveness to economic and social needs.

In the past few years, the total traffic of the railways; passengers and freight, exceeded 65 billion traffic units, which exceeds the combined traffic of railways in Algeria, Iran, Morocco, Tunisia and Turkey. *“The World Bank’s support to the transport sector in Egypt is in line with the Bank’s Country Assistance Strategy which identifies enhancing the provision of public services as a key objective to achieve sustainable growth,”* **said Emmanuel Mbi, Country Director for Egypt, Yemen and Djibouti.** *“Since the railways sector plays a significant role in the Egyptian economy, we are pleased to support the ongoing reforms that aim at creating safer, more dynamic, responsive, and competitive rail services,”* he added.

Passengers and businesses are two principal target beneficiaries of ENRRP. Low-income passengers in particular, will benefit from safer, more reliable and faster services;

whereas businesses, with respect to freight transport, will have access to a much larger range of more reliable rail services.

The first component of the Project will finance the modernization of signaling along the Arab el-Raml to Alexandria line and a computerized Central Traffic Control system (CTC). *“When this section is completed, it will be the most modern part of the Egyptian railway network in terms of signaling and safety standards,”* said **Michel Bellier, the World Bank Task Team Leader**. The second component of the Project will finance priority track-renewal works for 200 km of track along the Cairo-Aswan line and the Benha-Port Said line. *“The renewal of the identified sections will significantly decrease the risk of derailments and track maintenance costs while increasing train speed,”* he further added.

Protectionist Measures Show Worrisome Rise Since Beginning of Financial Crisis

Study shows 17 of G-20 countries have implemented trade-restricting measures

WASHINGTON, March 17, 2009 — 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 new World Bank study 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.

“Leaders must not heed the siren-song of protectionist fixes, whether for trade, stimulus packages, or bailouts,” said **World Bank Group President Robert B. Zoellick**. *“Economic isolationism can lead to a negative spiral of events such as those we saw in the 1930s, which made a bad situation much, much worse.”*

The cost of inaction on the Doha Agenda is rising, the World Bank study cautions. To date most countries have not yet raised tariffs to bound levels or taken full advantage of headroom on agricultural subsidies. However, as the recession deepens, many countries may be tempted to. This threat underscores the importance of pushing forward with a rapid conclusion of the Doha round.

The study suggests that the G-20, for its part, could adopt additional measures that would strengthen the fragile consensus against further protectionism. The G-20 countries could, for example:

Commit to greater transparency by agreeing to provide quarterly reports on new trade restrictions, and industrial and agricultural subsidies to the WTO, together with a mandatory analysis of the trade restriction on employment (since this would create new room for technical analysis and political discussion in countries themselves);

Advocate greater Aid for Trade for low-income countries; and

Seize the opportunity to support global trade in a time when it desperately needs to be supported, including making progress at the technical level on the Doha Round, even while formal negotiations are in abeyance.

Additional Information

Although the effects of these protectionist measures so far are probably minor relative to the size of unaffected markets, they are of considerable importance for particular exporters shut out of protected markets, the World Bank study shows. Tariff increases comprise only about a third of these actions and a half for developing countries. For example, Russia raised tariffs on used autos, and Ecuador raised tariffs on more than 600 items. Non-tariff measures include such policies as Argentina's imposition of non-automatic licensing requirements on auto parts, textiles, TVs, toys, shoes, and leather goods, or Indonesia's requirement that five categories of goods (including garments, footwear, toys, electronics, food and beverages) would be permitted in only five ports and airports.

In some countries, tightening standards have slowed import entry, notes the World Bank study. These include, for example, China's import ban on Irish pork as well as rejection of some Belgian chocolate, Italian brandy, British sauce, Dutch eggs and Spanish dairy products, and India's ban on Chinese toys. Export subsidies are particularly egregious because they contravene the draft Doha modalities. The EU announced new export subsidies on butter, cheese, and milk powder. Less obviously, both China and India have increased the rebate on the duty drawback system for exporters, and, although the subsidy component is a matter of discussion, the timing of these measures raises questions.

Subsidies proposed for the auto industry have proliferated and total some \$48 billion worldwide, mostly (\$42.7 billion) in high-income countries. In addition to the US direct subsidy of \$17.4 billion to its three national companies, Canada, France, Germany, United Kingdom, China, Argentina, Brazil, Sweden and Italy have also provided direct or indirect subsidies – not including Australia's support to its car dealers and South Korea's and Portugal's support to their component suppliers. To the extent that the industry is laden with excess capacity, these subsidies impede exit and delay adjustment. Even worse, subsidies may be linked to requirements that companies to preserve domestic employment, even at the cost of shutting more efficient plants abroad in developing countries. Moreover, to prevent this, governments have had to react to the policies of neighbors – so, for example, Canada has matched the subsidies the US gave Detroit auto makers to ensure that Canadian plants of American producers would remain open.

The study notes that several factors have clearly muted protectionist pressures and distinguish this global downturn from the pressures of the 1930s. Countries are far more interdependent through supply chains, imported inputs, and even services. Export interests are far more powerful than before relative to pure import-competing industries. Producers for the domestic market are more reliant on imported inputs, and production chains link global markets through a web of trade in parts and components. The simple average of trade-to-GDP is today 96 percent compared to 55 percent in 1970 – and parts and components trade, an indicator of supply chains, has more than doubled as a proportion of total trade.

In addition, successive GATT/WTO agreements have provided much greater legal stability of trading relations. Because of this quite different political economy today, a few proposed restrictions have been rejected or not enacted. In Brazil, for example, the bureaucracy attempted to impose widespread licensing arrangements and import controls reminiscent of the 1970s, only to provoke a response of outrage from the private sector

that led to immediate reversal. Similarly, the more egregious forms of the Buy America provision appear to have been circumvented. Moreover, about 10 of the 77 proposed and implemented changes in trade policies involved steps toward greater liberalization, mostly related to free trade agreements.

Rwanda: Fifth Poverty Reduction Support Grant (PRSG 5)

WASHINGTON, March 17, 2009 - The World Bank's Board of Executive Directors today approved the following project:

IDA Grant: US\$80 Million

PROJECT DESCRIPTION: The Fifth Poverty Reduction Support Grant (PRSG 5) for Rwanda will focus on 5 priority areas: (i) raising agricultural production in a sustainable manner; (ii) improving access to and quality of key economic infrastructure services; (iii) strengthening the framework for post-basic education, with the aim of building a skilled workforce and promoting science and technology; (iv) deepening and widening the financial sector; (v) strengthening management of public resources at the central and local levels.

World Bank Seeks to Improve Higher Education in Bangladesh

WASHINGTON, DC, March 17, 2009 — The World Bank today approved a US\$81 million interest-free IDA credit to Bangladesh, designed to improve the quality and relevance of teaching and research in the country's higher education institutions.

The Higher Education Quality Enhancement Project will support both innovation and accountability within universities and enhance the technical and institutional capacity of the higher education sector.

Bangladesh's achievements in the education sector are many. Gross primary school enrolment rate is around 90 percent, and secondary school enrolment has more than doubled since independence. Gender parity has been achieved at both levels. However, similar progress has not been realized at the higher education level. Bangladesh's tertiary enrollment rate is one of the lowest in the world at 6 percent and the sub-sector faces significant challenges when it comes to funding, quality, governance, and management.

"Higher education is vitally important to energize Bangladesh's economy and to boost its investment climate," said Xian Zhu, World Bank Country Director for Bangladesh.

“This project will fund activities which can bring rapid and visible benefits to the academic community, and help more Bangladeshi youth enroll in universities.”

The project’s main component is to establish conditions that will stimulate teaching, improve learning, and boost research in universities, and introduce an efficient instrument for the allocation of public funds to universities with an emphasis on innovation and accountability.

“The project will help establish a mechanism – the Academic Innovation Fund (AIF) - that will allocate resources based on performance,” said Yoko Nagashima, World Bank task team leader for the project. *“The project’s goal is to reward universities that demonstrate vision, innovation, and discipline. AIF resources will be made available as a grant for all eligible public and private universities on a competitive basis.”*

The project also aims to integrate Bangladesh’s universities in the globalized world of knowledge. In this regard, the project will establish a Bangladesh Research and Education Network (BdREN), a high performance Information and Communications Technologies (ICT) network providing connectivity among education and research institutions in both public and private sectors to enable academics, scientists, and researchers to communicate with their peers within the country and globally.

The credit from the International Development Association (IDA), the World Bank’s concessionary arm, has 40 years to maturity with a 10-year grace period; it carries a service charge of 0.75 percent.
