



Financial Fallout for Emerging Markets and Developing Countries

September 25, Washington, DC. The crisis of confidence in financial markets last week hit Manhattan like a wrecking ball, and the Feds countered with a dramatic proposal to remove illiquid instruments from the system. Congress is wrestling with the “bailout” now. All hope the plan will quickly improve the situation here, but the spillover for emerging and developing countries and the future impact of slowed growth in the United States is yet to be measured. The following excerpts gathered from leading experts paint a worrisome picture.

World Reaction

The U.S. came under attack from friends and foes alike at the United Nations yesterday for creating an economic crisis imperiling development in Africa, Asia and Latin America. President George W. Bush’s pledge of “bold steps” to arrest the crisis—in one of the first major speeches at this week’s UN General Assembly meeting—was brushed aside. French

President Nicolas Sarkozy took U.S. financial executives to task, and Brazil and other countries that have overcome financial crises with U.S.-backed loans were critical. [Bloomberg 9/24/08]



Photo: iStockPhoto.com

Few are Immune

With investors dumping perceived risk as global market turmoil continues, enthusiasm for wilder emerging “frontier markets” such as sub-Saharan Africa has faded... For much of the first part of the year, some analysts described emerging markets in general as “decoupled” from troubled developed economies. But a glance at stock market graphs from Vietnam to Ivory Coast shows them tracking most of the huge recent daily moves on Wall Street and other developed markets, plunging last week then recovering somewhat on hopes of a US rescue package for troubled banks. As economic woes in the

United States and Western Europe deepened money has been pulled from emerging markets and ploughed into safe havens such as US Treasuries. [Reuters 9/25/08]

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IMF Head Says Worst is Yet to Come

IMF Managing Director Dominique Strauss-Kahn said the crisis in U.S. financial markets is raising un-



The Bretton Woods Committee is a nonpartisan group of distinguished citizens dedicated to increasing understanding of the World Bank, IMF, WTO and the regional development banks (the so-called Bretton Woods institutions) and efforts to spur economic growth, alleviate poverty and improve financial stability.

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from cover

certainty and dampening growth prospects around the world. Following the latest U.S. action to stem the worsening crisis on Wall Street (Fed loan to AIG), Strauss-Kahn said, “The consequences for some financial institutions are still in front of us. We have to expect that there may be in the coming weeks and coming months other financial institutions with some problems,” he told reporters on September 17.

[Asia: Fearful of the Economic Slowdown Expected to Follow the Financial Crisis](#)

Asian policy makers see little risk that their countries will be hit by a financial crisis similar to the economic meltdown of 1997, downplaying concern the U.S. turmoil will infect the region’s financial system, according to Bloomberg. “This is nothing” compared with 1997, the Governor of the Bank of Thailand said on September 18. “The direct impact is very limited, although we may see some slowdown through the trade channel later on.”

“The risk to Asian banks is more from the impending economic slowdown and market turmoil than from direct exposure to the distressed U.S. financial institutions,” said Ritesh Maheshwari, a Standard & Poor’s analyst in Singapore. Their “strengthened balance sheets as a result of healthy profits can withstand the impact of likely losses from direct exposure.”

[Japan’s Says Asia Protected by High Reserves](#)

“I don’t think a financial crisis will take place in Asia,” said Bank of Japan Governor Masaaki Shirakawa. “The situation of Asian economies is different from the time of the 1997-1998 crisis. They have plenty of foreign reserves.”

[China Feels Vindicated for Taking a Tough Line with Paulson](#)

U.S. regulators failed to manage the risks of new financial products and China needs to learn the lessons to avoid its own meltdown, former central bank deputy governor Wu Xiaoling said.

“The U.S. crisis reflects regulatory problems in the U.S. and innovative financial products that ignored basic economic rules,” Wu told a financial conference in Beijing. “The U.S. crisis today would be China’s tomorrow if financial products such as securitization are introduced without proper risk-control measures.”

China has resisted years of pressure from U.S. Treasury Secretary Henry Paulson to open its financial system more quickly and add new products. Those barriers helped the nation limit its losses and writedowns from the credit-market crisis to less than 1 percent of the \$516 billion global total.

Madam Wu did not comment of China’s vulnerability to the U.S. economic slowdown expected to follow once the financial turmoil is translated into the real economy. Some analysts are grim about the slowdown’s impact on China.



A floating market in the Mekong Delta, Vietnam. Credit: iStockPhoto.com

Russian Stock Exchange Closes; Oligarchs Poised to Win

Russian emerging markets expert Vladimir Kvint tells MarketWatch that the Russian stock market has lost two-thirds of its value and actually closed its doors for two days last week. Kvint predicts Western capital will flee, selling equity shares for pennies on the dollar to Russian oligarchs.

Gulf States Face Decline in their Foreign Investments

Gulf states are bracing for the shakeout in the value of their massive foreign investments and the impact of lower oil revenues as the U.S. financial crisis jolts the global economy, analysts say, AFP reported. But the banking sector in the oil and gas-rich six-nation GCC appears safe. “The U.S. banking crisis will further slow global economic growth, dampening demand for oil. This will cause oil prices and revenues to drop sharply,” said Saeed al-Shaikh, chief economist of Saudi Arabia’s National Commercial Bank.

Ironically, Africa May Suffer Less, for Now

“Africa is unlikely to suffer from the first round effects of the crisis because of its weak integration into the global financial system,” according to the African Development Bank’s chief economist Louis Kasekende. “However, the recession in developed countries may eventually weaken the demand for African exports, suggesting that the continent may suffer the second round effects of the crisis,” he said. [*Guardian 9/25/08*]

UN Chief Fears US Financial Crisis Will Hurt UN Poverty Fight

“Secretary-General Ban Ki-moon expressed deep concern Tuesday that the US financial crisis will have a serious global impact, especially on rich donor nations that play key roles in fighting poverty. He urged a resumption of stalled world trade talks, which the UN sees as crucial to opening world markets to poorer developing countries. [*The Associated Press*]

UNCTAD’s Supachai Calls for New Regulations

Reuters reports that “Financial markets must be more tightly regulated to prevent recurrent crises such as the meltdown we are seeing nowSupachai Panitchpakdi, Secretary-General of the UN Conference on Trade and Development (UNCTAD) said.

“In order to prevent the recurrence of a financial crisis, can we rely really on the market mechanism, because the so-called unfettered market mechanism has always produced on a recurrent basis once every few years some crisis,” Supachai said. He added that financial markets needed to be regulated just as world trade was. ...” [*Reuters*]

Looking toward the Future

With Americans feeling the pinch in their home prices and investment accounts, and U.S. policymakers turning to a massive rescue effort, it will likely be harder to focus attention and maintain support for multilateral institutions and programs to assist the developing world. Supporters of multilateral engagement will have to remain vigilant. [*Editor*] **BWC**

FY2009 Funding Will Continue at FY08 Levels Until Next Year

Through the House Subcommittee and the Senate Full Committee on Appropriations passed versions of the FY09 State, Foreign Operations, and Related Programs Appropriations Bill, the final funding levels and changes in direction will likely be left to the new Administration and the next Congress to enact. On September 24, the House passed a continuing resolution that will fund most government programs through March of next year. It also includes an additional \$100 million for international food aid. The Senate is expected to take similar action in the next few days.

Millennium Challenge Corporation

Funding levels for Millennium Challenge Corporation (MCC) for both FY08 and FY09 have been the hot topic for the entire summer. Within the FY08 Supplemental Appropriations both the Bush Administration and a bipartisan group of Senators fought to keep Congress from rescinding \$525 million of the original FY08 appropriation. As a result of the efforts led by Senators Sununu (R-VT) and Casey (D-PA) and pressure from the Administration and advocacy groups, the FY08 appropriations was reduced by only \$58 million, for a total of \$1.49 billion for FY08. The reduced rescission was considered a victory within the current appropriations environment.

However, just a month later, the Senate Appropriations Committee passed only \$250 million in funding for FY09 for the MCC. The House version provides \$1.54 billion (equal to the original FY08 appropriation). The Administration requested an increase to \$2.2 billion in FY09, which would meet the promised U.S. obligation, but the program has yet to receive anything close to full funding since it was established four years ago. The MCC is a Bush Administration initiative which provides assistance for low-income and lower-income countries that show promising results towards governing justly, investing in their citizens and promoting economic freedom.

United States Global Leadership Against HIV/AIDS, Tuberculosis, and Malaria Reauthorization Act of 2008

This summer Congress and the President renewed the United States' commitment to fight against HIV/AIDS by renewing the popular program known as President's Emergency Plan for AIDS Relief (PEPFAR). The new law authorizes \$48 billion—tripling the previous authorization—to combat the spread of these infectious diseases. Experts estimate that the program will prevent 12 million HIV infections and treat up to three million people infected by HIV over the next five years.

Multilateral Assistance Update: IDA 15th Replenishment

On behalf of the United States, the Bush Administration pledged to provide \$3.705 billion in assistance over the next three years to the International Development Association (IDA) as part of the 15th replenishment. This represents a 30 percent increase for the U.S. contribution over IDA 14. However, due to the decrease in the value of the dollar and five new countries donating to the fund, the United Kingdom has now become the largest contributor. Legislation that would authorize the three-year agreement has been introduced in both houses of Congress. The Bretton Woods Committee and many of its members have worked actively to ensure Congressional action before the end of the fiscal year.

Over the last several years, Congress has appropriated lower amounts than the U.S. has committed to contribute. Total arrears, which date back to IDA 13, now equal \$378 million. [This total includes \$31.35 million that was rescinded from the FY06 because Congress required that the US Treasury hold a portion of the FY06 funds until it could certify that the World Bank had met several anti-corruption measures, which it was not able to do by the end of FY07.] The Senate version of the FY09 appropriations bill provides \$1.177 billion, which is \$58 million less than the U.S. obligation. The House subcommittee on State & Foreign Operations has marked-up their version, but has not yet reported to the full committee. **BWC**

FY09 Foreign Operations Appropriations

\$ in Millions

	Admin Request	House Subcommittee*	Senate Committee
Multilateral Development Banks (MDBs)			
World Bank Group			
IBRD	-		100
IDA	1,277		1,177
MIGA	-		-
IFC	-		-
Global Environment Facility	80	80	100
Asian Development Bank			
AsDB	-		-
AsDF	115		101
African Development Bank			
AfDB	-		146
AfDF	156		146
International Fund for Agricultural Development	18		18
Total MDBs	2,071		2,131
Treasury			
Debt Restructuring	141		85
Technical Assistance	29		29
Total Treasury	170		110
MCC	2,225		254
USAID	767	809	895
Military Assistance	4,903		4,827
Global Health	6,357	7,278	6,740
Clean Energy	400		200
TOTAL FY09 State, Foreign Operations and Related Programs	39,498	36,600	36,600

Source: US Senate Appropriations Committee & US House Appropriations Subcommittee on State, Foreign Ops and Related Programs

*The House FY09 bill will not be public until it is considered by the full committee. Numbers for this chart were pulled from the Subcommittee Chairwoman's press release.

The World Bank

As the debate continues as to how to best tackle the AIDS crisis, the World Bank and the World Health Organization have joined forces along with several country officials, research institutions and civil society organizations to better provide technical guidance on the matter. This new alliance will analyze the issues and provide governments with clear technical guidance to improve health systems.

A recent report launched by the World Bank called *The Changing HIV/AIDS Landscape* was created to help the Bank develop its new Africa HIV/AIDS strategy. Its authors highlight how the AIDS epidemic and environment are quickly changing and stress the need for a localized, evidence-informed response to HIV/AIDS in Africa.

Since 2000, the World Bank has provided more than US\$1.6 billion to more than 30 countries in sub-Saharan Africa to combat the epidemic. The World Bank has also committed itself to playing an important role in assist-

ing countries in making HIV/AIDS funding work better and support the achievement of the Millennium Development Goals.

The current AIDS Strategy & Action Plan that was developed in 2006 provides countries with advice and technical support for action planning, tools and guidelines to assist clients to assess and improve their strategies, as well as training for policymakers and practitioners. Guidance to ASAP is provided by three advisory groups comprised of representatives from the UNAIDS ASAP Advisory Group; UNDP, ILO, UNICEF, WHO, UNESCO; and the UNAIDS Secretariat.

The Director of Health, Nutrition and Population at the World Bank, Julian Schweitzer says that, "This collaboration will be useful at the country and global levels. We will generate new knowledge, work with countries to improve their approaches and share lessons at the regional and global levels." **BWC**

The WTO

In late July after more than a week of Geneva negotiations at the ministerial level aimed at establishing new global trade rules, the Doha round of trade negotiations came to a grinding halt in late July. The success of this so-called "developing" round was to have positively impacted the world's poor, yet many saw little few meaningful gains. Experts say that in the end the deadlock could not be broken whereby emerging market countries, including India and China, wanted to protect their farmers from international competition, and the United States wanted access to those markets.

Nevertheless, Director-General Pascal Lamy remains optimistic, "My hope' he said,' is that given the resilience of the system, it will be able to resist the bumpy road ahead of us." Upbeat speeches aside, few see any hopes

of restarting the talks now, with U.S. election less than 2 months away and financial markets reeling from the worst financial crisis in a lifetime. Once a new U.S. government is in place things may well change, but whichever presidential candidate takes office, a tougher U.S. negotiating position seems inevitable.

In the interim, the World Trade Organization will switch its focus to resolving disputes by helping governments adjust to trade tensions within the agreed legal system. According to David Woods of World Trade Agenda Consultants, the failure of the Doha round, "is a lost opportunity, that's for sure, but the WTO will continue to be used to resolve disputes where its integrity is intact."

BWC

The IMF

On July 1, 2008, the International Monetary Fund held a seminar focused on the increase in food and fuel prices and their macroeconomic impact and proper policy responses. In his opening remarks, Managing Director Dominique Strauss-Kahn emphasized the importance of developing country specific policies, as every country's situation is different; a one size fits all approach would not yield to success. This is a universal challenge where good macroeconomic policy is needed.

Other participants from the Research and Policy Departments echoed Strauss-Kahn's remarks and added that the oil demand has shifted its sphere of influence to emerging and developing countries which has led to a sharp price increase. The recent rise

in biofuel usage can help the price to drop, but only if harvest outcomes, inventories and production are stable. Unlike in advanced countries, where higher food and fuel prices mean a decline in living standards and personal spending, emerging economies suffer even more, and poverty increases.

At the time of the seminar, Strauss-Kahn relayed the message that the Fund realized the gravity of the situation and was currently, "working closely with our member countries...actively involved in providing advice and financial support to address their urgent concerns and

help mitigate the impact of this crisis." In order to help cope with the effects of high prices, broad cooperation among affected countries, donors and international organizations is needed.

High food prices are a serious humanitarian concern as well as a source of macroeconomic instability affecting budgets, trade balances, prices and incomes almost everywhere in the world. Mr. Strauss-Kahn said that the IMF



Managing Director Dominique Strauss-Kahn emphasized the importance of developing country specific policies, as every country's situation is different. Photo courtesy of the IMF.

is helping countries to create the space for stepping up expenditures related to the food crisis and discussing with them the design of targeted social measures to help the poorest people.

On June 22, leaders from major oil producing and consuming countries met in Jeddah, Saudi Arabia, to discuss causes of the re-

cent oil price increases and suggest policies to improve oil market stability. In a speech to other foreign ministers, John Lipsky, First Deputy Managing Director discussed how the oil price surge, together with the sharp rises in other commodity prices, has boosted inflation across the globe.

Another main topic of discussion was the detrimental impact of current oil price levels and volatility on the global economy. When it was over, all parties involved called for policy efforts to improve the functioning of the oil market. **BWC**

Bretton Woods Committee Self-Assessment

Recently the Bretton Woods Committee leadership and staff embarked on the first phase of a strategic planning process to enable the Committee to be more responsive to the needs of its constituencies and changing environmental factors. The effort is designed to support both long range planning and near term goal setting for the Committee. Key elements of this strategic planning approach include:

1. Conducting a thorough self-assessment of the Committee's approach to operating, including its mission, goals, programs, and other organizing activities and structures;
2. Analyzing the Committee's core constituencies;
3. Refining the Committee's mission, organizational goals and approach as needed and;

BWC also conducted a preliminary *impact assessment* to evaluate the level of each constituent group's involvement with the Committee and whether BWC might be meeting their expectations. Constituent groups were bucketed into cross-sections of members (e.g., members who regularly attend the Committee's IFI roundtable events) and non-members (e.g., U.S. Congress, IFI Leadership, general public).

This exercise helped illuminate the breadth and diversity of BWC's constituent base. And by taking a more structured approach to how BWC views its constituents, the Committee is able to refocus and prioritize its limited resources toward more mission critical member and non-member initiatives.

A number of early conclusions from the self-assess-

Committee leadership and staff are highly confident that BWC's overall goals, role, and services remain salient now and in the future.

4. Developing specific, measurable performance objectives that will support accomplishment of BWC's goals and mission.

To kickoff its self-assessment, Committee staff began by objectively posing some tough questions that any customer-centric organization—be it corporate, government, or nonprofit—should be prepared to respond to.

- Does the Committee truly understand its core constituencies? Do they understand the BWC?
- Is there still a demand for the Committee's services? Where and by whom and which services?
- Do BWC's mission statement and goals remain relevant?
- How effective is the Committee at accomplishing its mission?
- What are the Committee's strengths, challenges, and opportunities?
- What distinguishes the Committee from other global actors working in the same sphere of influence?

ment are evident. Committee leadership and staff are highly confident that BWC's overall goals, role, and services remain salient now and in the future. However, the Committee cannot presume to understand the needs of its diverse audience without implementing more regular feedback channels. Nor can we improve our effectiveness without developing more concrete performance measures that align with our mission and goals. We pledge to do both of these better.

As the Committee continues its strategic planning process and seeks to improve its approach toward serving its constituents, the next steps will be to incorporate member and other constituent feedback into the analyses. Do you have feedback you would like to share with BWC regarding any of the questions above? If so, please do not hesitate to contact the Committee staff via phone (202-331-1616) or email (info@brettonwoods.org). **BWC**

World Bank President Zoellick Calls Fragile States the Toughest Development Challenge of Our Era

This article is an excerpt of the World Bank President, Robert Zoellick's speech to the International Institute for Strategic Studies, in Geneva, Switzerland on Sept. 12, 2008.

Too often, the development community has treated states affected by fragility and conflict simply as harder cases of development. Yet these situations require looking beyond the analytics of development—to a different framework of building security, legitimacy, governance, and economy. This is not security as usual, or development as usual. Nor is it about what we have come to think of as peace-building or peacekeeping. This is about Securing Development—bringing security and development together first to smooth the transition from conflict to peace and then to embed stability so that development can take hold over a decade and beyond.



Robert B. Zoellick, © Simone D. McCourtie / World Bank

Ten Priorities

1) First, Focus on Building Legitimacy of the State

Legitimacy in fragile situations is not just achieved through elections or agreements that share power among factions. It needs to be earned by delivering basic services, especially visible ones. Clean up the garbage.

2) Provide Security

It may make more sense to think of “securing development” in terms of simultaneity rather than sequencing. To build confidence, UN peacekeeping mandates and renewals should be authorized for much longer than 6 to 12 months. International partners also need to assist the fragile state to build—and pay for—its own reliable police and armed forces.

3) Building Rule of Law and Legal Order

The international security and development communities have let the task of building of justice and law enforcement systems fall between the cracks. The effort of [the UN peacekeeping office] to launch an office of Rule of Law and Security Institutions is at least a start.

4) Bolster Local and National Ownership

Local and national ownership in state building is fundamental to achieving legitimacy, trust, and effectiveness. At the national level, donors need to help governments develop the capacity to employ the national budget as a transparent tool for coherent planning and accountability.

5) Ensure Economic Stability – as a Foundation for Growth and Opportunity

Countries need to get the fundamentals right—fiscal, monetary, and exchange rate policies. Reforms for economic stability need to be

sequenced with political cycles to avoid triggering governance crises that will make economic reform impossible.

6) Pay Attention to the Political Economy

Effective efforts to address fragility and conflict must be grounded in a political economy that is capable of sustaining peace. Conflict and instability can be a lucrative business for those in power who may exploit state resources or profit from violence.

7) Crowd in the Private Sector

To some extent, private sector development can happen even in the absence of formal legal frameworks and

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IMF Appointments



Ms. Adelheid Burghi-Schmelz has been appointed Director of the Fund's Statistics Department. Since 2002, Ms. Burgi-Schmelz has been serving as the Director General of the Swiss Federal Statistics Office. Some of Burghi-Schmelz's previous assignments include a recent appointment by the United Nations Statistical Commission and in the private sector with ASCOM Corporation in Berne.



Former Polish Prime Minister **Marek Belka** has been appointed Director of the Fund's European Department. Mr. Belka is currently serving as the Under-Secretary General at the United Nations and Executive Secretary of the UN Economic Commission for Europe. Mr. Belka was the Prime Minister of Poland from 2004 to 2005 and was also Poland's Deputy Prime Minister in 1997 and Minister of Finance from 2001 to 2002. Earlier on in his career, Mr. Belka served as Chief Economic Adviser to the President of Poland between 1996-97 and 1998-2001.



Former Chilean Finance Minister **Nicolás Eyzaguirre** has become Director of the Western Hemisphere Department. He was Professor of Economics at the University of Chile. Between 1990-97, he held several senior positions at the Central Bank of Chile, including Director of Economic Studies. He was the IMF Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay in 1998-2000, before being Finance Minister in 2000-2006. Mr. Eyzaguirre will take up his position on January 1, 2009.



Caroline Atkinson was appointed as Director of the External Relations Department on August 27, 2008. She has worked on a wide cross-section of countries as well as on policy issues in the European, Western Hemisphere, and Policy Development and Review Departments. She has also held high-level positions in key official and private sector organizations, including at the Bank of England, the U.S. Treasury, the Council for Foreign Relations, and Stonebridge International. Ms. Atkinson has also worked as a journalist for the *Washington Post*, the *Economist*, and the *Times of London*. Ms. Atkinson will take up her new position on November 1.

IMF Appointments



On November 1, 2008 **Carlo Cottarelli** will become the Director of the Fiscal Affairs Department. He has extensive experience across the IMF, having worked in the Fiscal Affairs, the European, the Monetary and Capital Markets, and the Policy Development and Review Departments. Before joining the Fund, Mr. Cottarelli worked in the Research Department of the Bank of Italy.

World Bank Appointment



On July 2, 2008, President Robert B. Zoellick appointed **Isabel Guerrero** as Vice President for the South Asian Region. Guerrero will leave her post as Country Director for India, based in New Delhi. She joined the bank in 1982 as a “young professional.” During the past eleven years she has been a country director for Bolivia, Ecuador, Paraguay and Peru (1997-2002) and Columbia and Mexico from 2002 to 2007.

ZOELLICK
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financial sectors, drawing on private remittances and transfers from abroad. We need to develop more innovative models for leveraging public and private capital to build basic infrastructure.

8) Coordinate Across Institutions and Actors

The average developing country hosts 260 visits from donors a year. This overload is a huge burden for any developing country’s reform team. Greater use of Trust Funds could reduce the administrative burden on weak governments of having to deal with so many different donor procedures.

9) Consider the Regional Context

We need to recognize the consequences of cross-border ties, whether tribal and ethnic, religious, or other transnational identity groups; population movements; trade and smuggling routes; narcotics and criminal rings; or

political links. These connections may underpin hostility, or be the key to easing it.

10) Recognize the Long-term Commitment

These are not quick-fix countries: This means managing the expectations of donors and, for some organizations, changing financing parameters for fragile and post-conflict states. The World Bank is constrained by the allocation formula our donors establish for the International Development Association.

Conclusion

One of the strategic challenges for the World Bank Group is modernizing multilateralism: Both U.S. Presidential candidates have spoken about strengthening America’s multilateral approach to foreign policy. The time is ripe, and the dangers—and opportunities—of fragile states will be on the agenda for all of us. **BWC**

For further information and complete speech transcript, please refer to the World Bank website: <http://go.worldbank.org/EE1KBSJV60>



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The Committee continues to update and improve its website. We have been recording most of the 2008 Committee events and meetings making audio and video recordings available online. This feature will be particularly useful for Committee members residing outside of the metro D.C. area. The audio files are available as MP3 (Podcast) compatible format.

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