

**INFORMAL MEETING WITH SHANTA DEVARAJAN
CHIEF ECONOMIST AT THE WORLD BANK'S AFRICA REGION
ON THE FINANCIAL CRISIS
WEDNESDAY 11 MARCH 2009, 10:00 – 11:00**

BACKGROUND INFORMATION

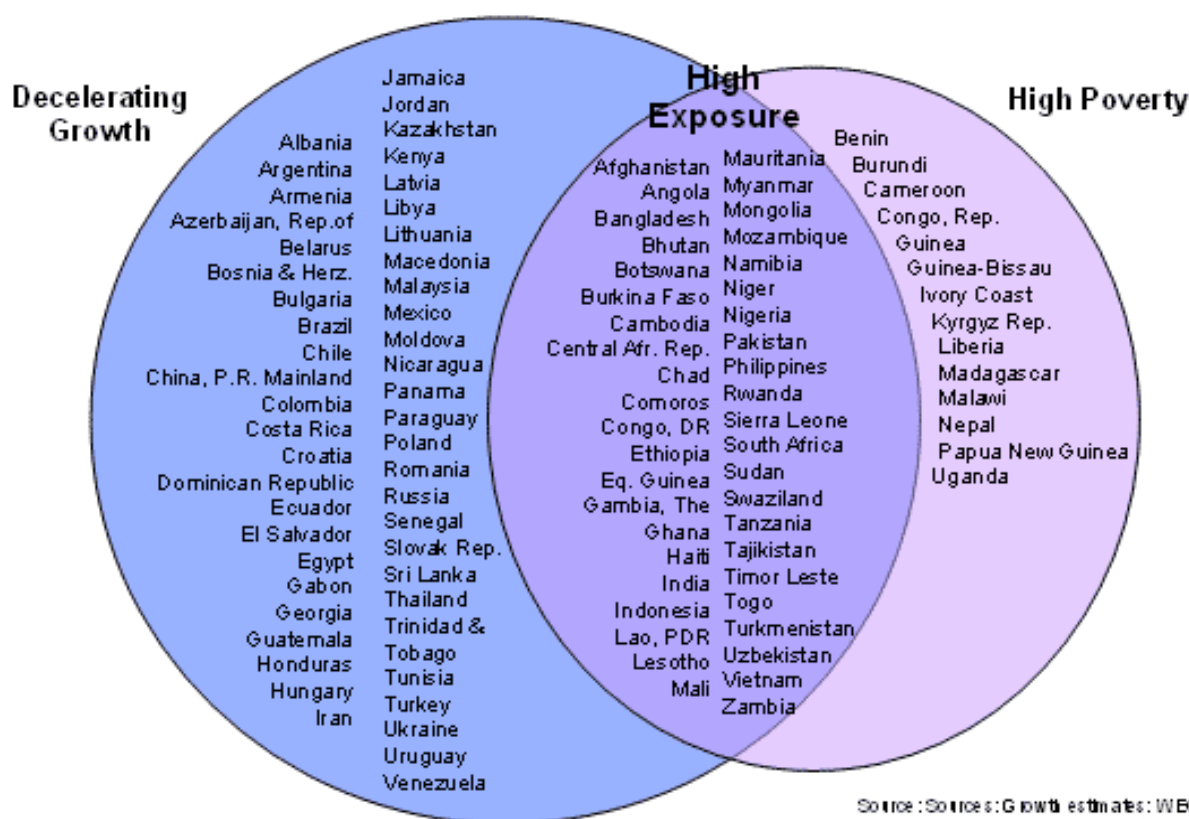
General

Developing countries face a new challenge from the global financial crisis, which is rapidly becoming an unemployment crisis. The World Bank Group is helping with the financial rescue but believes that we must remain focused on the human rescue for the many millions left behind. The recent food and fuel crises have already pushed millions back into poverty and hunger. Sharply tighter credit conditions and weaker growth are likely to cut into government revenues and their ability to invest to meet education, health and gender goals, as well as the infrastructure expenditures needed to sustain growth. The financial crisis now threatens to shrink emerging markets' access to trade and investment, and each 1 percent drop in growth could trap another 20 million in poverty. Governments must keep their commitments to increase aid to the most vulnerable people.

Impact at country level

Almost 40 percent of the developing countries are highly exposed to the poverty effects of the crisis and the remainder is moderately exposed, with less than 10 percent facing little risk. Yet three quarters of these countries cannot raise funds domestically or internationally to finance programs to curb the effects of the downturn. One quarter of the exposed countries also lacked the institutional capacity to expand spending to protect vulnerable groups.

Fig 1 Impact of financial crisis at country level; countries that are most at risk are situated in the overlap between the circles



Source: Sources: Growth estimates: WEO
January 2009 forecast and Bank staff estimates.
Poverty: 2008 WDI estimates for 2005.

How the World Bank Group is helping

- Substantially increasing IBRD lending: IBRD could make new commitments of up to \$100 billion over the next three years. This year lending could almost triple to more than \$35 billion compared to \$13.5 billion last year to meet additional demand from our developing country partners. In December 2008, the Bank approved \$500 million for structural reforms in Ukraine to help mitigate the impact of the financial crisis. The Bank also agreed to help India with \$3 billion in increased investment.
- Fast-tracking IDA Funds: facility now in place to speed \$2 billion to help poorest countries deal with effects of the financial crisis. Money to be used for safety nets, infrastructure, education and health which is part of the \$42 billion IDA 15 fund for the poorest people. In February 2009, the Bank approved \$35 million for Armenia and a \$100 million for the Democratic Republic of Congo.
- Food crisis response: Nearly US\$900 million is approved or in the pipeline to help developing countries cope with the impact of high food prices through our US\$1.2 billion food facility

Shoring up the private sector: New IFC facilities will provide up to \$30 billion over the next 3 years and:

- Ensure trade flows: IFC is doubling its Global Trade Finance Program to \$3 billion and is mobilizing funds from other resources. Japan has pledged \$1 billion.
- Bolster distressed banking systems: Launching a global equity fund to recapitalize distressed banks, where IFC plans to invest \$1 billion over three years and Japan plans to invest \$2 billion.
- Keep infrastructure projects on track: IFC expects over three years to invest at least \$300 million and mobilize at least \$1.5 billion from other sources to provide roll-over financing and help recapitalize viable infrastructure projects—roads, ports, and transmission lines—facing financial distress through a new Infrastructure Crisis Facility. Germany has pledged 100 million Euros for the facility.
- Shift advisory support services: Refocusing existing advisory services programs help clients cope in the current crisis. IFC estimates a financing need of at least \$40 million over three years.
- Support microfinance institutions: A new Microfinance Enhancement Facility will provide refinancing to more than 100 microfinance institutions in up to 40 of the world's poorest countries, reaching up to 60 million low-income borrowers

Other Support:

- Ensuring liquidity: MIGA is providing guarantees to foreign banks to help inject liquidity and bolster confidence in Ukraine's and Russia's financial systems. It has also entered into an innovative contract with the African Development Corporation (ADC), to help facilitate up to \$150 million of investments to region's small and medium-sized businesses.
- Energy for the Poor: The poor have been hard hit by the impact of rising fuel costs. The Bank is moving forward with a new program to give rapid support so countries can strengthen their social safety nets.
- Technical analysis and advice - for example with contingency planning for small banking systems.
- Diagnostic tools are available to help countries move quickly if their banking systems experience problems

ABOUT SHANTA DEVARAJAN



Shantayanan Devarajan is the Chief Economist of the World Bank's Africa Region. Since joining the World Bank in 1991, he has been a Principal Economist and Research Manager for Public Economics in the Development Research Group, and the Chief Economist of the Human Development Network, and of the South Asia Region. He was the director of the World Development Report 2004, *Making Services Work for Poor People*. Before 1991, he was on the faculty of Harvard University's John F. Kennedy School of Government.

The author or co-author of over 100 publications, Mr. Devarajan's research covers public economics, trade policy, natural resources and the environment, and general equilibrium modeling of developing countries. Born in Sri Lanka, Mr. Devarajan received his B.A. in mathematics from Princeton University and his Ph.D. in economics from the University of California, Berkeley.

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More information

WBG Financial Crisis Web Page: <http://www.worldbank.org/html/extdr/financialcrisis/>

Shanta Devarajan's blog: <http://africacan.worldbank.org/node>