



**International Monetary and
Financial Committee**

Twenty-First Meeting
April 24, 2010

**Statement on behalf of the
World Bank Group**

**STATEMENT TO THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
ON BEHALF OF THE WORLD BANK GROUP**

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I. Introduction

1. This spring, members of the International Monetary and Financial Committee will be gathering at a particularly important juncture. While the global economy is showing signs of recovery, it is still fragile. The declining impact of fiscal and monetary stimulus, excess capacity, high and persistent unemployment, ongoing household and banking-sector restructuring, and persistent financing gaps are all influencing the pace and sustainability of the recovery.
2. Low- and lower middle-income countries are particularly vulnerable to a weak and uneven global recovery, as they remain heavily dependent on commodity exports, remittances, FDI and ODA. In many of these countries, a shortage of resources to mount an appropriate fiscal response jeopardizes years of progress in combating poverty and improving the foundations for economic growth, thereby undermining progress toward the Millennium Development Goals (MDGs). Many households, particularly in Africa, remain clustered around the poverty line and even mild downturns can have costly and long-lasting effects on their welfare, as families with few alternative employment opportunities and little or no access to credit are forced to reduce food intake, even for very young children, and pull children out of school.
3. As time runs out in reaching the MDGs, supporting developing countries should be seen as an investment in sustainable and broad-based global growth. Developing countries offer abundant opportunities for high-return investments and new sources of growth in global demand, and the promotion of multiple growth poles represents an important contribution for rebalancing global growth.

II. Current Economic Environment and Implications for Meeting the MDGs.

4. Recent indications are that a global recovery is underway and the most damaging phase of the crisis is behind us. Most advanced economies have already emerged from recession. More normal conditions are slowly but steadily returning to global financial markets, and for many of the most dynamic emerging market economies, growth rates are climbing toward pre-crisis levels. The World Bank forecasts global GDP, which declined by 2.1 percent in 2009, to grow 3.1 percent this year and 3.3 percent in 2011. World trade volumes, which fell by a staggering 12.4 percent in 2009, are projected to expand by 9.5 percent this year.
5. But it is too soon to declare victory; tremors related to defaults in Dubai and fiscal sustainability concerns in some advanced countries highlight the continuing weaknesses embedded in financial markets, and the nascent recovery could still stall. Significant spare capacity and unemployment compound the risks surrounding the outlook. Depending on consumer and business confidence in the next few quarters and the timing of fiscal and monetary stimulus withdrawal, growth in 2011 could be as low as 2.5 percent or as high as 3.5 percent.
6. Although the prospects for developing countries are for a relatively robust recovery--6.0 percent growth this year and 5.9 percent in 2011 (up from 1.6 percent in 2009)--weak demand in advanced economies, combined with modest capital inflows, continue to place a large number of countries under serious financial strain, with risks to critical investments in social and physical infrastructure if additional resources cannot be mobilized.

7. The emerging evidence confirms concerns that the crisis has slowed (and could potentially reverse) progress in achieving the MDGs. By 2015, the global poverty rate is projected to be 15 percent—one percent higher than it would have been without the crisis, leaving an additional 64 million people in extreme poverty at end-2010. For Sub-Saharan Africa, the poverty rate is expected to be 38 percent by 2015, two percentage points higher than it would have been without the crisis, with 20 million fewer people lifted out of poverty.
8. The collapse in global demand has led to layoffs from export-oriented industries in many developing countries. While some laid off workers who had migrated from rural areas have returned to rural communities, others (particularly in East Asia) have switched to the informal sector for reduced wages and diminished income and job security. ILO analysis suggests that conditions for decent work among the employed have seriously deteriorated and the working poor have increased by an estimated 40 million to over 100 million in 2009, with the bulk of the increase occurring in 2009.
9. The medium-term impact on other MDGs may also be considerable. Indicative results from growth analyses suggest that, on account of the crisis, an additional 55,000 infants might die in 2015, an estimated 350,000 more students might be unable to complete primary school, and some 100 million more people might remain without access to safe water.

III. Stronger, Sustainable and More Inclusive Economic Growth

10. **Economic Growth and Social Progress.** In many dynamic emerging market countries, available policy tools and resources have permitted an aggressive and pro-active policy response, with the result that recovery is well underway, underpinned by expansionary fiscal policy financed with large reserves or market borrowing. But in most LICs and many lower middle-income countries, these options have been out of reach, jeopardizing years of progress in combating poverty and improving the foundations for growth.
11. **Development Assistance.** While the environment in which poverty reduction is pursued has become more difficult and donors face significant fiscal pressures, increased and more effective aid remains critical. A recent DAC survey of members' budget forecasts suggests that expected ODA in 2010 will be of the order of \$108 billion (in 2004 dollars), an increase of \$28 billion (or 36 percent in real terms) over 2004, with the ODA/GNI ratio rising from 0.26 percent to an estimated 0.34 percent in 2010. However, this implies a shortfall of \$18 billion (in 2004 dollars) against commitments set in Gleneagles. The OECD's forecast suggests that ODA to Africa will embody only half the promised increase. Additional resources will be required to cushion the impact of the crisis on growth, finance social safety nets for vulnerable groups, and protect or expand core development spending.
12. **Debt.** Despite substantial debt relief under various initiatives, maintaining debt sustainability in the face of uncertainty and slow growth in the global economy remains a challenge for a number of countries that are currently at high or moderate risk of debt distress. The Bank and Fund have increased the flexibility of the Debt Sustainability Framework for LICs, including through changes to debt limits on non-concessional borrowing. This underlines the importance of adequately concessional lending, such as that provided through the IDA framework. At the same time, LICs should be encouraged to strengthen their capacity to manage their public debt, including through debt management-related technical assistance from the Bank.

- 13. Private Sector Development.** SMEs are the foundation of the private sector and will be critical to the recovery in growth and employment. The World Bank Group is expanding its work in support of SMEs through investment climate reform, by doubling its mobilization of finance by 2013, and it is working with partners to assess the state of financial-sector development, support innovative technologies and approaches to financial service delivery, strengthen financial infrastructure, and finance the expansion of financial services.

IV. The World Bank Group's Role

- 14. WBG's response to the crisis.** The World Bank Group is a major contributor to global financial safety nets as demonstrated both through its traditional instruments and those introduced in light of experience with the current crisis. Since July 2008, cumulative WBG commitments in support of its clients have reached almost \$105 billion. Given the WBG's mandate and comparative advantages, its support has focused on three priority areas: (i) contributing to market stabilization through a coordinated and rapid program of action to help avert the collapse of the trade, banking and private sectors; (ii) assisting poor and vulnerable households by helping governments create or strengthen safety nets; (iii) helping developing countries minimize disruptions to ongoing development programs and projects while managing the increased pressures on government resources. Financial support has been complemented by knowledge services to help countries prepare for, and respond to, financial crises, assess their vulnerability, and strengthen policy and regulatory frameworks. In addition, the Bank continued to provide technical and financial support to help strengthen management, efficiency, transparency, and accountability in public finance.
- 15. IBRD and Middle Income Countries (MICs).** IBRD lending to MICs almost tripled in FY09, to \$32.9 billion—a new record—from \$13.5 billion in FY08, with fast-disbursing Development Policy Loans comprising about 47 percent of the total. For FY10, IBRD lending to mid-April reached \$31.2 billion—almost one third higher than the same period the year before—and is projected to be at least \$40 billion for the year as a whole, with the demand for another \$55-\$60 billion projected over the next two years. Under a reasonable forecast, total new commitments are projected to reach over \$130 billion over FY09-12. In a more prolonged recession scenario, lending could be closer to \$150 billion, well beyond the \$100 billion called for in the 2009 Development Committee's spring communiqué.
- 16. IDA and Low-Income Countries.** IDA commitments hit a record \$14 billion in FY09, 25 percent above a year earlier. Results were driven by strong delivery to Africa (56 percent of total IDA commitments) and South Asia (30 percent). For FY10, IDA commitments to mid-April reached \$7.3 billion of the \$30 billion available in FY10 and FY11. Despite significant increases in replenishment levels, funds available fell short of needs as a result of the onset of the food and fuel crises nearly two years ago and the subsequent global financial crisis.
- 17. IFC, MIGA and the Private Sector.** IFC provided \$14.5 billion in financing for private-sector development in FY09, including \$4 billion mobilized from other investors through syndications, structured and securitized products, and crisis initiatives. Over half of the projects financed were in IDA-eligible countries, representing a tripling since FY05. For FY10, IFC's "own-account" commitments to mid-April reached \$6.8 billion. To support private-sector access to finance for investment and trade, both of which have contracted sharply over the last year, the IFC, working with governments and development partners, has focused its attention on access to finance for SMEs, microfinance, trade finance, bank capitalization, and infrastructure support. MIGA issued \$1.4 billion in guarantees in FY09 and is increasing its support to systemically-important

financial institutions seeking political risk insurance for investments in subsidiaries in emerging markets. While the bulk of this has been for the ECA region, MIGA is also seeing demand pick up in other regions. In FY10, MIGA will provide broadly similar levels of guarantees but with more exposure to infrastructure projects.

V. Bank-Fund Collaboration

- 18. Coordination with other development partners is essential to leverage scarce resources and capacity.** The current economic and financial environment has underscored the need for the WBG and the IMF to work closely together, drawing on one another's complementary mandates and comparative advantage in areas of mutual interest. Of particular importance in current circumstances are the reforms introduced to the joint Bank-Fund FSAP initiative. These were discussed by both Executive Boards in September 2009 at which time Executive Directors endorsed the joint and voluntary nature of the program. The importance of jointness was underscored by the Fund in an earlier Board paper where it stated that “the involvement of the Bank in non-industrial countries helps ensure consistent advice and allows the Fund to leverage its limited resources”. The voluntary nature of the exercise was viewed as important to foster more candid dialogue with client country authorities and commitment to implement FSAP recommendations.
- 19.** A comprehensive assessment of implementation of the Joint Management Action Plan (JMAP) on Bank-Fund collaboration was recently discussed at the Boards of both institutions. A number of areas for improvement were identified to enhance the effectiveness of Bank-Fund collaboration, particularly at the country level. The managements of both institutions have committed to a program of action to address collaboration shortcomings in the period ahead.