



*Access to Finance:  
Improving Development Finance Effectiveness*

*2009 KfW Financial Sector Development Symposium  
Preserving Access to Finance during the Global Crisis*

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December 4, 2009

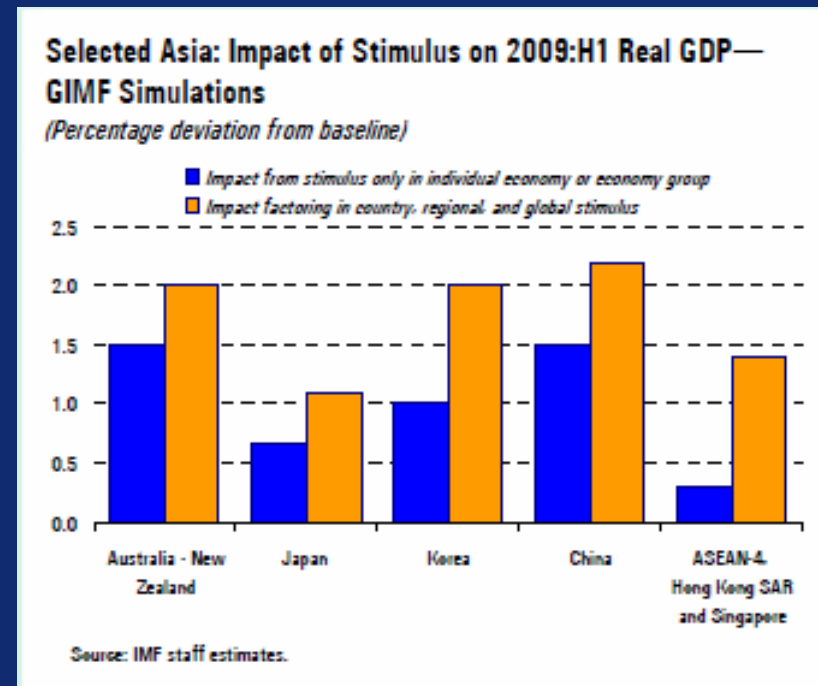
# Overview



- I. Crisis Response
- II. Development Finance
- III. Quality of spending

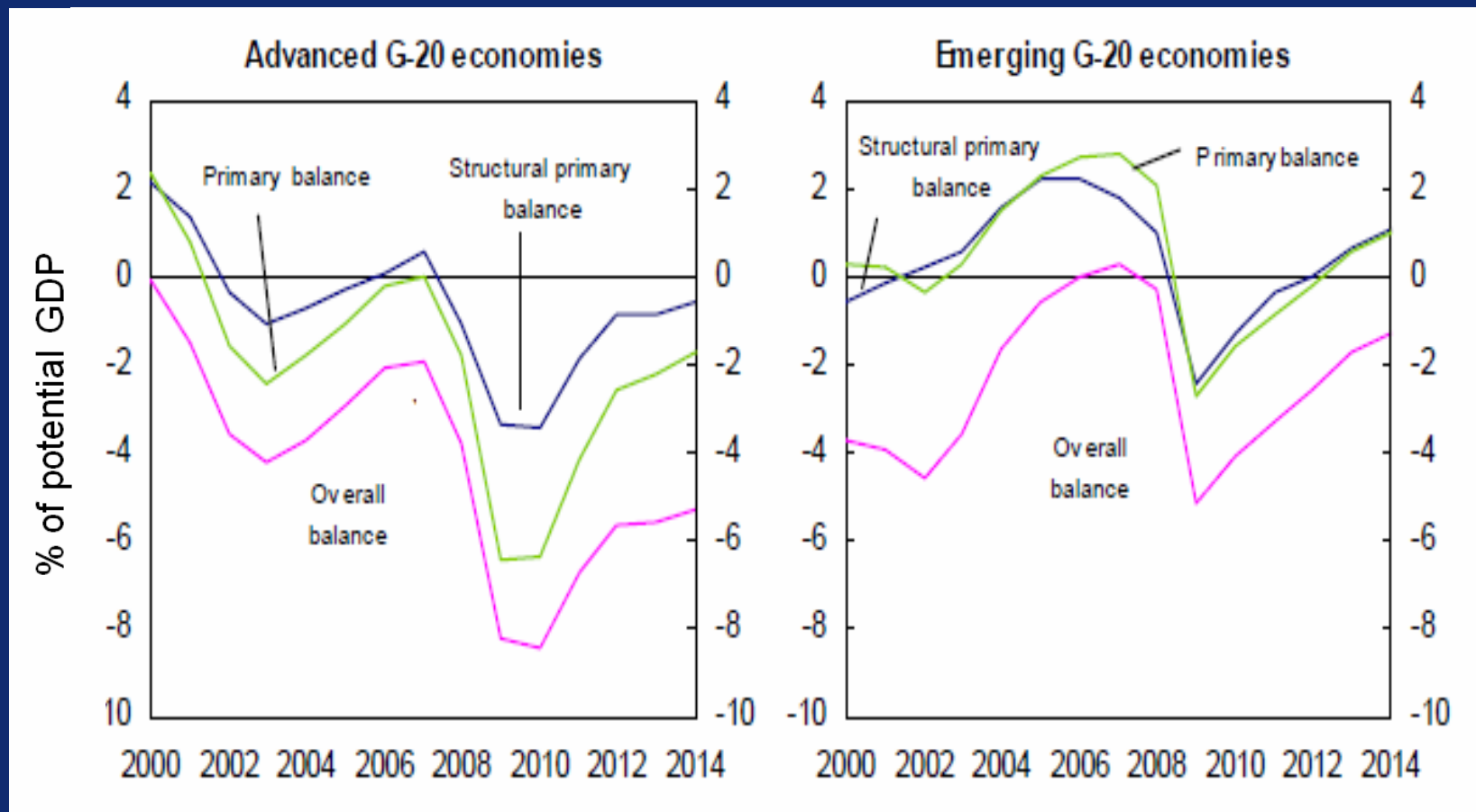
# I. Crisis Response: Increased spending has spurred the incipient economic recovery

- ▶ Announced fiscal stimuli worldwide exceeded US\$3 trillion or some 5 percent of global GDP.
- ▶ An IMF simulation estimates the impact of stimulus on real GDP could reach 2% in some countries in Asia.



Source: IMF Regional Economic Outlook (Oct. 2009)

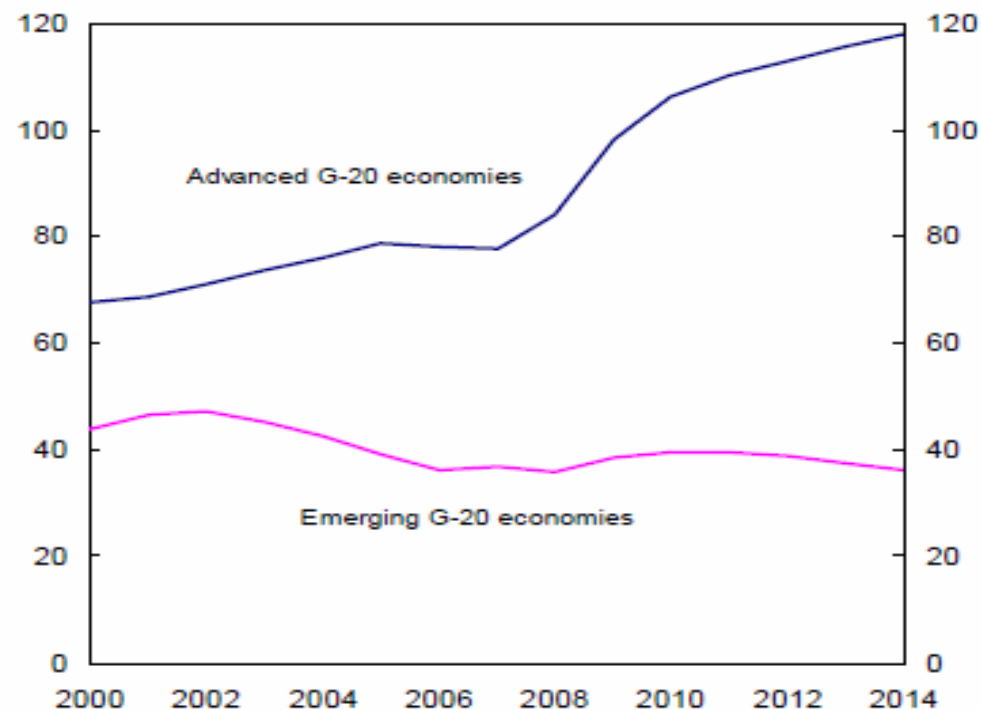
# Fiscal expansion results in rising deficits



Source: IMF WEO (Oct, 2009)

# Debt could turn into a new source of risk

**G-20 Countries: General Government Debt Ratios, 2000–14**  
(In percent of GDP)



Source: IMF (2009)

## II. Development Finance



Entity	Size
G-20	Crisis-related discretionary measures estimated at 2% and 1.6% of GDP in 2009 and 2010 respectively
Bilateral ODA	ODA from OECD DAC countries highest in 2008; Commitment level in early 2009 suggests further increase in 2010
World Bank Group	\$60 billion commitments worldwide in FY09 - IBRD commitment almost trebled from FY08 to \$33 billion
IMF	\$160 billion – In addition, established a broad financial safety net by garnering pledges for a tripling of IMF resources
AsDB	Approval in 2008 the highest in its 42 year history – further increase planned in 2009 and 2010
IADB	Loan approval in 2008 exceeded any previous years by more than 10% and in the first half of 2009, approvals rose by a third
AfDB	Financing in 2009 could be three times pre-crisis projections

# World Bank Group support at record level

- ▶ IBRD commitments rose from \$13.5 billion (FY08) to nearly \$33 billion in FY09
- ▶ IDA commitments hit a record high of almost \$14 billion in FY09, up by 25 percent from the previous year
- ▶ IFC designed a range of initiatives focused on mobilizing resources from other DFIs
- ▶ MIGA's response is built around (but not limited to) a new global Financial Sector Initiative focused initially on ECA

World Bank Group Commitments  
FY08-09 (\$ billions)

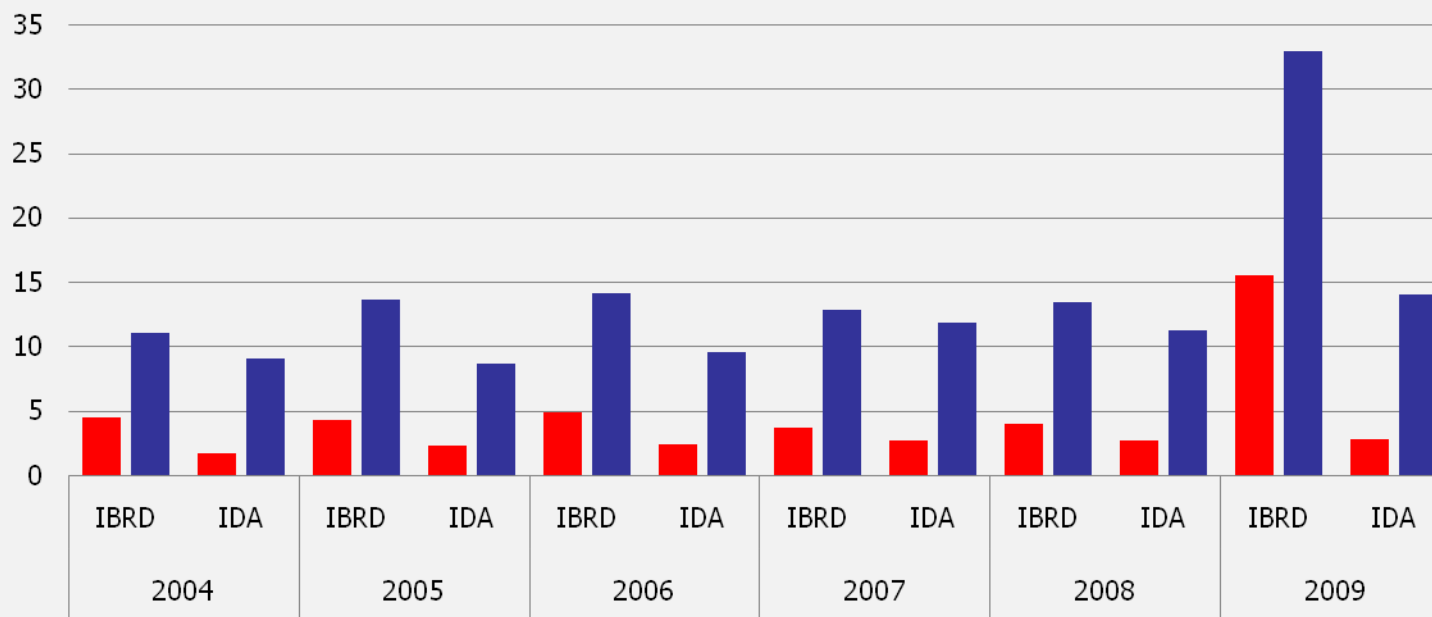
World Bank Group	FY08	FY09	FY10 to end-October
IBRD	13.5	32.9	13.3
IDA	11.2	14.0	2.9
IFC	11.4+	10.5+	2.7
MIGA	2.1	1.4	0.4
<b>Total</b>	<b>38.2</b>	<b>58.8</b>	<b>19.3</b>

+Own account only. Excludes \$4.8 billion in FY08 and \$4.5 billion in FY09 mobilized through syndications and structured finance

# Development Policy Lending increased

## Development Policy Lending and Total Commitments

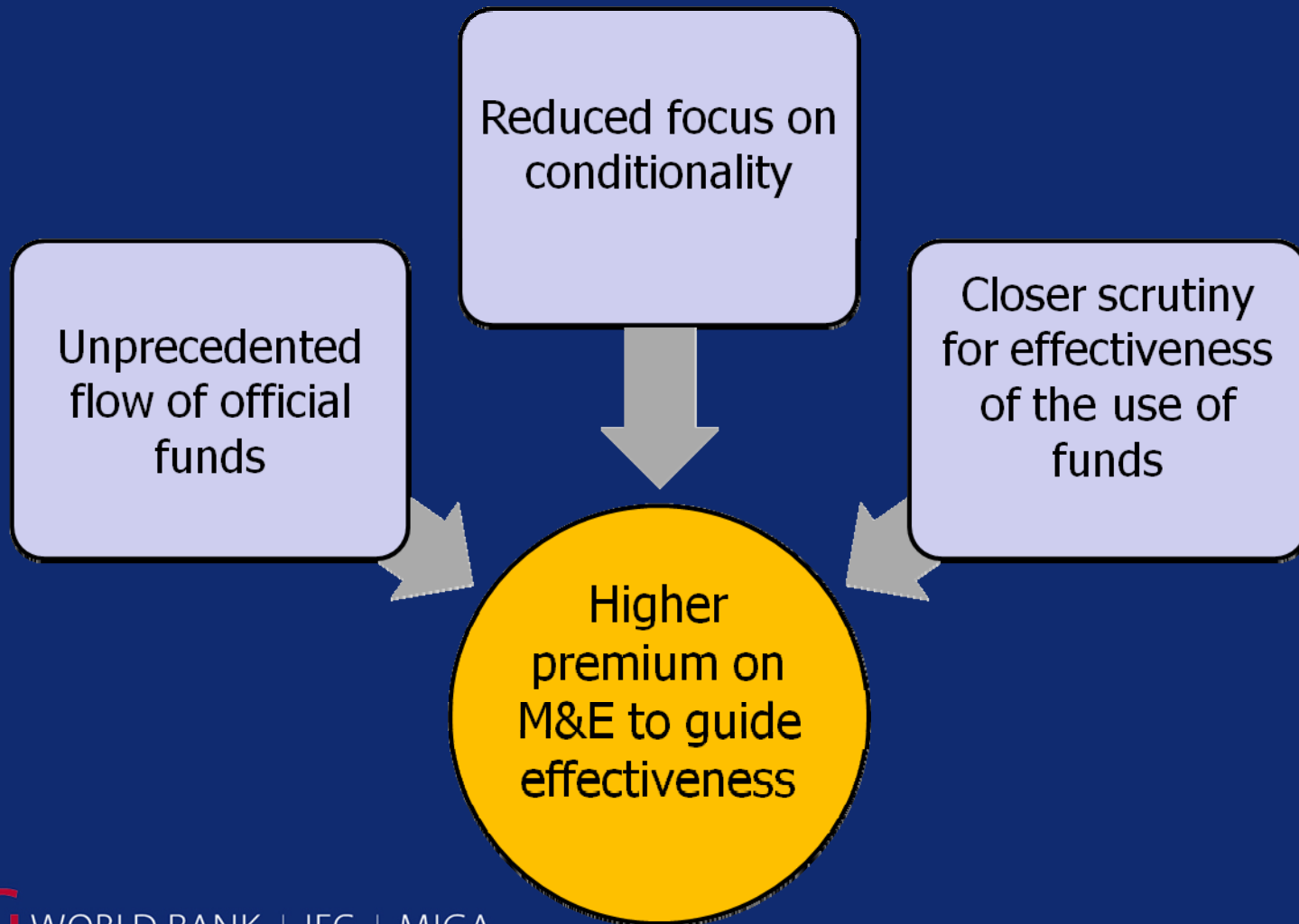
US\$ Billion



■ DPL ■ Total Lending Commitments

Source: World Bank Annual Report 2009

# High premium on effectiveness



# III. Quality of Spending: Growth is vital to sustain financial flows

- ▶ Fiscal stimulus and financing from external sources are vital given the financing gap
  - Private capital flows fell from US\$1,200 billion in 2007 to US\$360 billion in 2009
- ▶ Strong growth is needed to generate resources for public spending and fiscal sustainability

Developing Country Financial Flows and Trade				
	2007	2008	2009f	2010f
<b>Financial Flows (\$ billions)</b>				
FDI, net <sup>a</sup>	411.2	425.0	279.0	269.5
Portfolio flows, net <sup>a</sup>	88.1	-85.4	-99.8	-
				110.4
Debt, net <sup>a</sup>	499.1	128.3	--	--
Remittances <sup>c</sup>	289	338	317	322
<b>Trade (% change)</b>				
Trade <sup>b</sup>	13.8	9.4	-9.6	0.8

Source:

<sup>a</sup> IMF World Economic Outlook Database October, 2009, [www.imf.org](http://www.imf.org), accessed October 5<sup>th</sup>, 2009;

<sup>b</sup> World Bank. 2009. Global Development Finance; <sup>c</sup> Migration and Development Brief 11, November 3, 2009.

f = forecast.

# Direct support to the private sector is crucial



## ▶ **Support microfinance institutions:**

- MFIs have been serving SMEs and poor households, but recent trend towards greater profitability and commercialization have put MFIs in a more vulnerable position
- IFC and KfW have launched the Microfinance Enhancement Facility, a short- to medium-term facility of up to \$500 million with initial contributions of \$150 million from IFC and \$130 million from KfW.

▶ **Trade finance:** A trade finance gap of approximately \$100 billion to \$300 billion anticipated

▶ **Advisory support :** Knowledge support to private sector enterprises cope with the crisis

# Poverty and employment need full attention



- ▶ Social and poverty impact of crises should be anticipated
  - 90 million people could be trapped in poverty on top of 130-155 million people pushed into poverty in 2008 due to soaring food and fuel prices
  - More than 1 billion people could go chronically hungry this year
- ▶ Slow recovery means unemployment will be a sustained problem for developed and developing countries
  - The gap between the world's production capacity and actual production is expected to remain large — about 6 percentage points of GDP for developing countries
  - The higher borrowing costs and weakened financial system will likely reduce the long run potential output of developing countries by as much as 4 percent of their GDP
  - Remittances to the poorest countries are anticipated to fall between 5 and 7% in 2009, recovering only modestly in 2010
- ▶ Social spending must be protected
- ▶ Expanding social protection programs and mixing labor market and social safety net responses to crisis can help

# Expanding social protection programs

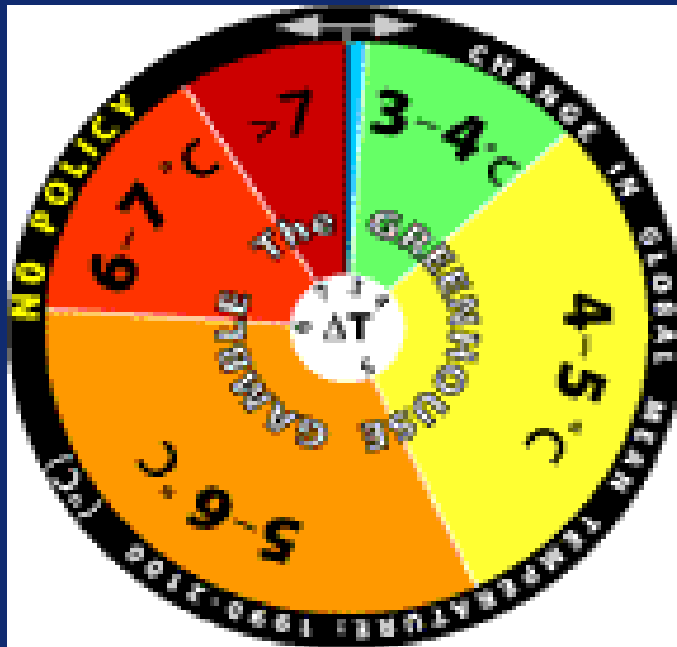


- ▶ **Brazil Bolsa Familia**
  - Food crisis – focused on inflation adjustments in benefits
  - Financial crisis – increase coverage by 1.3 million households; raised eligibility threshold to cover past inflation
  - Adjusted rural/urban balance in coverage to respond to crisis impact
- ▶ **Mexico Oportunidades**
  - Increased benefits to compensate fuel and price increases
  - Set minimum number of beneficiary requirements rather than caps on number of beneficiaries
  - Strengthened effort to link with other programs, e.g. employment programs
- ▶ **Colombia: Familias en Accion, Red Juntos** □□ Expanded coverage
- ▶ **El Salvador: Red Solidaria** □□ Expedited program roll-out; raised benefit levels
- ▶ **Chile: Chile Solidario, Subsidio Unico Familiar** – Increased benefit levels to existing beneficiaries
- ▶ **Indonesia:** Mixing social protection and livelihood approaches

Source: O'Keefe (2009)

# Climate and environment should be integrated in crisis response

In a “no-policy” world, 50% chance of greater than 5 C warming

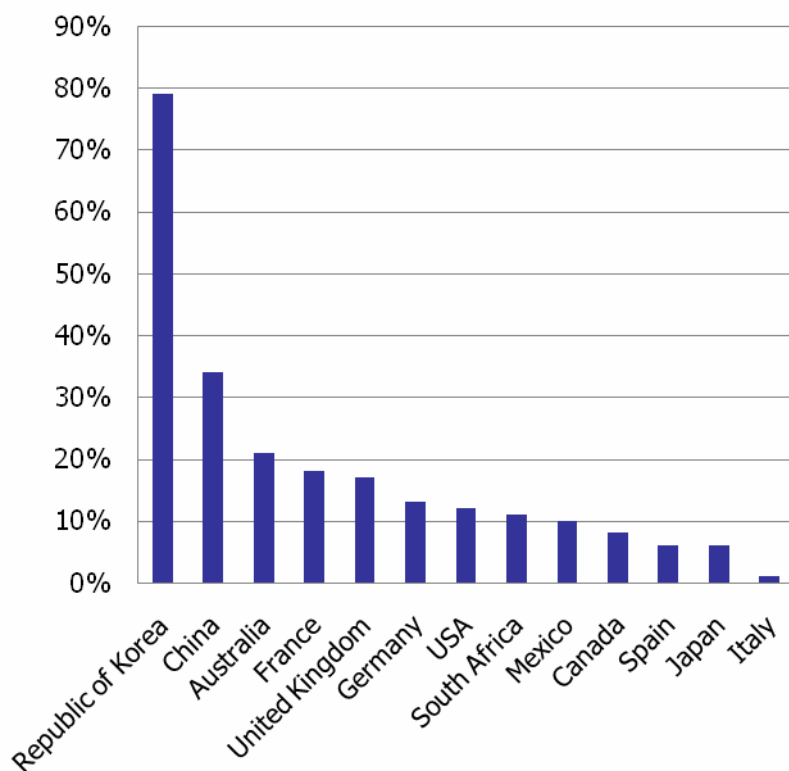


Source: MIT

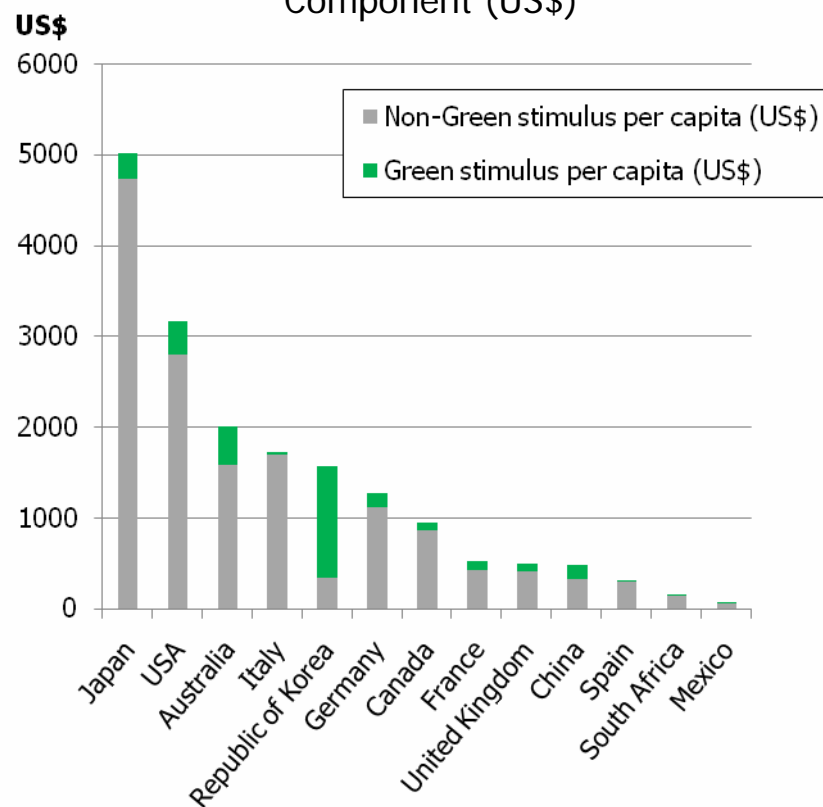
- ▶ Tensions between:
  - Short- and long term objectives—economic recovery, mitigation, adaptation
  - Domestic and global objectives—global public goods
- ▶ The crisis has diluted attention to climate change and the environment
- ▶ Delays in addressing the threat will increase the costs

# An opportunity for greener investments?

Green Fund share of Economic Stimulus



Total Stimulus Package per capita and Green Component (US\$)



# Global lessons from evaluation



- ▶ The shift towards a greater role for government needs to be balanced with efforts to reinvigorate the private sector.
- ▶ Close attention to fiscal deficits and debt sustainability is essential.
- ▶ Poverty must be addressed from the beginning.
- ▶ Environmental and climate change issues need to be integrated into crisis response and recovery strategies.

Source: IEG 2009.

# Quality of spending to sustain recovery



- ▶ Growing government deficits should be managed
  - A sharp fiscal adjustment and stronger growth will be needed -- the stimulus spending needs to be directed to high-productivity areas.
  - Any spending would not automatically generate growth--only a few countries have put in place the mechanisms for analyzing, tracking, and evaluating project costs and benefits.
  
- ▶ Adequate and timely financial flows are still needed
  - The extraordinary fiscal expansion needs to give way to an eventual pickup in private consumption and investment.
  
- ▶ Effective social programs (in education, health, and safety nets) should be protected
  - A unique opportunity to integrate climate change and environment into the crisis response



# Thank you!

*Improving Development Results Through  
Excellence in Evaluation*

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