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THE WORLD BANK

Working for a World
Free of Poverty

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Crisis hitting poor hard in developing world, World Bank says

Ahead of G7 meeting, research highlights growing risks to the poor

WASHINGTON, February 12, 2009— The spreading global economic crisis is trapping up to 53 million more people in poverty in developing countries and, with child mortality rates set to soar, poses a serious threat to achieving internationally agreed targets to overcome poverty, the World Bank Group said.

New estimates for 2009 suggest that lower economic growth rates will trap 46 million more people on less than \$1.25 a day than was expected prior to the crisis. An extra 53 million will stay trapped on less than \$2 a day. This is on top of the 130-155 million people pushed into poverty in 2008 because of soaring food and fuel prices.

These new forecasts highlight the serious threat to the achievement of the U.N.'s Millennium Development Goals (MDGs), which set specific targets by 2015 to overcome poverty. The new research shows that the sharply lower economic growth rates will significantly retard progress in reducing infant mortality. Preliminary estimates for 2009 to 2015 forecast that an average 200,000 to 400,000 more children a year, a total of 1.4 to 2.8 million, may die if the crisis persists.

“The global economic crisis threatens to become a human crisis in many developing countries unless they can take targeted measures to protect vulnerable people in their communities,” said **World Bank Group President Robert B. Zoellick**, who will be attending the meetings on Saturday. *“While much of the world is focused on bank rescues and stimulus packages, we should not forget that poor people in developing countries are far more exposed if their economies falter. This is a global crisis requiring a global solution. The needs of poor people in developing countries must be on the table.”*

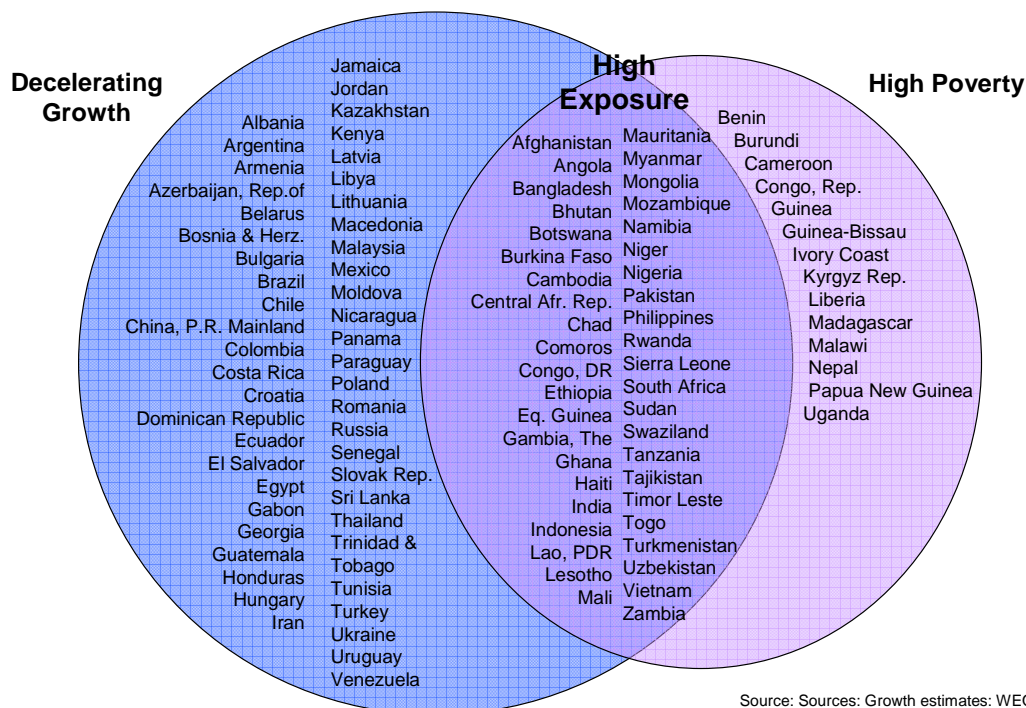
In a policy note issued in the run up to the Group of Seven finance ministers meeting on Saturday, the World Bank said almost 40 percent of 107 developing countries were highly exposed to the poverty effects of the crisis and the remainder was moderately exposed, with less than 10 percent facing little risk.

The policy note, entitled “The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens”, said it was critical for exposed countries to finance job creation, the delivery of essential services and infrastructure, and safety net programs for the vulnerable. 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

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vulnerable groups. The note urges financial support in the form of grants and low or zero interest loans for these countries.

Exposed countries; those in the central shaded area are most exposed to poverty risks:



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

Zoellick has recently called for the establishment of a “Vulnerability Fund” in which each developed country devoted 0.7% of its stimulus package to the fund. Three priority areas for the Vulnerability Fund are: safety net programs, infrastructure investments, and, support for small and medium-sized enterprises and microfinance institutions.

Background on Recent World Bank Group Initiatives:

The World Bank Group has been stretching to offer expanded, innovative products and services to assist developing countries:

- **Substantially increasing lending by the International Bank for Reconstruction and Development (IBRD):** IBRD could make new commitments of up to \$100 billion over the next three years. This year, lending could almost triple to \$35 billion.
- **Fast-tracking funds from the International Development Association (IDA):** facility now in place to speed \$2 billion to help poorest countries deal with the crisis. Money to be used for safety nets, infrastructure, education and health which is part of the \$42 billion IDA15 fund for the poorest people.
- **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 a US\$1.2b food facility

The IFC, an affiliate within the World Bank Group that focuses on the private sector, has launched new facilities to provide around \$30 billion over the next 3 years and:

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- **Ensure trade flows.** IFC plans to double its existing Global Trade Finance Program to \$3 billion over a three year period and mobilize funds from other sources.
- **Bolster distressed banking systems.** IFC is putting in place a global equity fund to recapitalize distressed banks. IFC expects to invest \$1 billion over three years, and Japan plans to invest \$2 billion. The \$3 billion fund, managed by the IFC, is a global equity and subordinated debt fund which aims to help recapitalize banks in smaller emerging markets.
- **Keep infrastructure projects on track.** IFC expects to invest at least \$300 million over three years and mobilize at least \$1.5 billion to provide rollover financing and recapitalize viable private infrastructure projects in financial distress. Germany has earmarked 100 million Euros for the facility. With additional funds from KfW Bank, the amount could grow to half a billion Euros.
- **Support microfinance.** IFC and Germany have launched a \$500 million facility that will support microfinance institutions facing difficulties refinancing as a result of the global financial crisis. It will ensure that low-income borrowers in developing countries continue to have access to finance.
- **Shift advisory support to help companies weather the crisis.** IFC is refocusing advisory services programs to help clients cope with the crisis. It estimates a financing need of at least \$40 million over three years.

For more information on the World Bank please visit www.worldbank.org