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World Bank Launches $1.2 Billion Fast-Track Facility for Food Crisis

Agricultural Support to Increase to $6 Billion, New Risk Management Tools for Crops

WASHINGTON, May 29, 2008 – The World Bank Group announced today it would support global efforts to overcome the global food crisis with a new $1.2 billion rapid financing facility to address immediate needs, including $200 million in grants targeted at the vulnerable in the world's poorest countries.

Photographer : Suwit Rhitjaroon

Announcing several measures to address immediate to longer-term food challenges, the World Bank Group said it would boost its overall support for global agriculture and food to $6 billion next year up from $4 billion, and would launch risk management tools, and crop insurance to protect poor countries and small-holders.

"As we go into the Rome meeting next week, it is crucial that we focus on specific action. Along with our partners, these initiatives will help address the immediate danger of hunger and malnutrition for the two billion people struggling to survive in the face of rising food prices, and contribute to a longer-term solution that must involve many countries and institutions," said World Bank Group President **Robert B. Zoellick**.

Grants for Djibouti ($5 million), Haiti ($10 million), and Liberia ($10 million) are being approved today. Over the coming month, the World Bank expects to provide grant support to Togo, Yemen and Tajikistan. These countries have been identified as high priority based on rapid needs assessments undertaken in the field with the World Food Program, the Food and Agriculture Organization, and the International Fund for Agricultural Development. Rapid needs assessments have now been completed in more than 25 countries, with another 15 ongoing.

The $1.2 billion facility, which is designed to address immediate needs, supports safety net programs such as food for work, conditional cash transfers, and school feeding programs for the most vulnerable. It provides support for food production – this year and beyond - by supplying seeds and fertilizer, improving irrigation for small-scale farmers, and providing budget support to offset tariff reductions for food and other unexpected costs.

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Photographer : Thanwa Singhakam

As part of the new facility the World Bank is also establishing a Multi-Donor Trust Fund to facilitate policy and operational co-ordination among donors, and leverage financial support for the rapid delivery of seeds and fertilizer to small farmers for the upcoming planting season.

The new rapid response facility stands alongside other efforts by the World Bank Group to address the global food crisis. The World Bank Board of Executive Directors is considering initiatives to provide risk management tools to poor countries faced by drought and other catastrophes.

"We're working with our Board to deploy index-related hedges and insurance products to protect poor farmers and countries from weather and supply shocks," said **Zoellick**.

Under a proposal being discussed by the Bank's Board in June, Malawi could be the first of several countries to use the World Bank as an intermediary to access weather derivatives. Should Malawi suffer a drought, then it would be protected against a rise in the price of imported maize. IFC, the World Bank Group member that promotes private sector investment, is proposing to support crop and livestock insurance for small-holders in developing countries.

For more information, please visit

http://www.worldbank.org/html/extdr/foodprices

Developing Country Growth Resilient in the Face of Financial Turmoil and Soaring Food and Energy Prices

East Asia remains engine of growth, but credit squeeze and inflation will dampen growth

BANGKOK, June 19, 2008 – In the wake of financial turmoil in high income countries and amidst high food and energy prices, developing countries' growth is easing but is still robust. Private capital flows to emerging markets, which hit a record $1 trillion in 2007, are expected to drop to around $800 billion by 2009, which would still be the second highest level ever, says a new World Bank report.

Global Development Finance 2008 predicts a slowdown in world GDP growth from 3.7 percent in 2007 to 2.7 percent in 2008, while growth in developing countries is expected to slow from an extraordinary 7.8 percent in 2008 to 6.5 percent in 2008.

East Asia's growth i s expected to slow from 10.5 percent in 2007 to 8.6 percent in 2008. The slowdown is mostly in China, where growth is likely to fall by 2.5 percentage points in 2008. However, with prudent economic management, East Asia and China will likely continue to emerge as a center of growth for the world economy, helping to counter the slowing of high-income economies.

Thailand, meanwhile, grew by 4.8 percent in 2007 and is expected to grow by 5 percent (2008) and 5.4 percent (2009).

The main risks for East Asia stem mostly from financial market volatility rather than from the global slowdown. These include possible steep declines in securities markets across East Asia-especially in equities and to a lesser extent, offshore bond markets.

"Strong growth in East Asia and other parts of the developing world is certainly helping to offset the sharp slowdown in the U.S.," said **Uri Dadush**, Director of the World Bank's Development Prospects Group and International Trade Department. *"But at the same time, rising global inflationary pressures – especially high food and energy prices – are hurting large segments of the poor around the world."*

Developing country growth in recent years has been powered in part by expanding capit al flows, including by foreign banks that have expanded their presenc e in developing countries through acquisitions and the establishment of local affiliates. As of end-June 2007, foreign claims on developing-country residents held by major international banks stood at $3.1 trillion, up from $1.1 trillion at the end of 2002.

Net private capital flows to the region remained strong at $228 billion in 2007, up from $203 billion in 2006, while net official flows continued to be negative.

The regional composition of private debt and equity flows became more broad-based in 2007, as shares shifted away from East Asia and Europe and Central Asia toward Latin America and South Asia.

"The presence of foreign banks in developing countries expands access to credit and as well as financial services, which can spur efficiency and innovation in domestic banks," said **Mansoor Dailami**, Manager of International Finance in the Development Prospects Group, and lead GDF author. *"However, the ripple effect of shocks from the credit squeeze in the US could impact local financial markets, including in countries like China, Indonesia, and Thailand."*

The report warns that countries with heavy external financing needs are potentially most vulnerable to a credit crunch, particularly in cases where private debt inflows into the banking sector have contributed to a rapid expansion of domestic credit, which stokes inflationary pressures.

While some low-income countries have recently accessed the international bond market, the bulk of private capital flows to developing countries go to just a few big economies, among them Brazil, Russia, India and China. The poorest nations remain reliant upon official aid, which further declined in 2007.

Photographer : Sumatee Petchampai

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Photographer : Patcharin Sanyan

DETAILED FINDINGS

- A year ago, total developing-country foreign exchange reserves amounted to $3.2 trillion, many countries were posting strong economic growth, emerging equity markets were rallying, and spreads on emerging-market bonds had reached record low levels. With the onset of the sub-prime crisis in the U.S., credit conditions deteriorated markedly. Even tho ugh emerging markets have shown considerable resilience so far, the balance of risks has plainly tilted to the downside.
- Nevertheless, despite a downward adjustment, the projected developing-country growth rate of 6.5% in 2009-10 is above the average over the first half of this decade (5.6%) and well above the average of the 1980s and 1990s (3.4 %). This illustrates the sharp rise in the underlying growth potential of developing countries as both structural and macroeconomic polices have improved in recent years.
- High food and energy prices are now the dominant force behind increased inflation across developing countries-and worryingly, they are hitting the poorest people the hardest. Prices of both energy and internationally-traded food increased 25 percent in nominal terms over the second half of 2007. For oil, the increase was mostly due to years of underinvestment and tight supply. For food and agricultural commodities, the big drivers are demand for biofuels in the U.S. and Europe, high prices for fertilizer and energy inputs, and export bans on key staple crops. Such bans exacerbate shortages in global markets in the short term and can curtail supply responses to higher prices in the long term. Poor weather reduced output in some countries, and market speculation also pushed up prices.
- Net FDI inflows to developing and high-income countries continued to surge in 2007, with global inflows reaching an estimated $1.7 trillion, just over a quarter of which went to developing countries. Net FDI inflows to developing countries as a whole increased to an estimated $471 billion. This was led by strong gains in Brazil ($16 billion) and Russia ($22 billion). Between 2000 and 2007, China headed developing countries in terms of their ability to attract FDI, attracting an estimated $84 billion in FDI in 2007. Thailand ranked tenth, attracting an estimated $9.6 billion.
- The presence of foreign banks has increased in developing regions for different reasons: in Sub-Saharan Africa because of the limited reach of local banking infrastructure; in Europe and Central Asia along with regional integration into the European Union; and in Latin America as a way for governments to open up to foreign competition.
- East Asia has relatively low foreign bank presence. Even excluding HSBC, Asian banks account for 40 percent of foreign bank presence in East Asia. In Indonesia, 28 percent of banking assets were held by foreign-controlled banks in 2006, while in Thailand, the share was 5 percent. (Indonesia, the Philippines, and Thailand lowered barriers to banking sector FDI following their 1997-98 financial crises). China, where banking sector FDI has traditionally been strictly limited, has recently taken steps toward li beralization as part of its WTO commitments.

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For comments or questions about this newsletter,
please contact Mr. Tinnakorn Sareenun
The World Bank Office, Bangkok
Siam Tower, 30th Floor, 989 Rama I Road, Pathumwan, Bangkok 10330

Tel.: +66 (0) 26868300
Fax: +66 (0) 26868301
Email: tsareenun@worldbank.org
Website: http://www.worldbank.or.th