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World Bank to double lending to emerging economies in wake of crisis

The World Bank is aiming to double its lending to emerging economies that are most vulnerable from the fallout of the global financial crisis, World Bank president Robert Zoellick said at a recent forum in Singapore organised by the Lee Kuan Yew School of Public Policy.

"We have about US$99 billion of loans in our books. We could lend another US$ 100 billion over the next three years. We could have a very rapid expansion this year," Zoellick says.

Emerging economies such as Indonesia and Mexico are targeting budget deficits of 1.5-2.0 per cent of GDP to provide safety nets to the most vulnerable from a prolonged economic downturn.

These economies are also building infrastructure facilities that could boost employment and create a foundation for future growth, as happened in China's development during the 1997-1998 Asian financial crisis, Zoellick says.

Besides the World Bank's usual lending activities, conducted through the International Bank for Reconstruction and Development and the International Development Association, Zoellick says the bank has also expanded its trade finance facility through a US$3 billion fund operated by its private sector arm, the International Finance Corporation.

Trade in recent months has stalled not just on the back of falling demand from the United States and Europe, but also because banks continue to refuse lending to each other. This has restricted the funding available to exporters and importers.

Zoellick says the IFC has also stepped up investments in bank re-capitalisation and infrastructure projects for developing countries.

"We saw a lot of otherwise viable infrastructure losing financing. This was the worst of all," Zoellick says. "You have a half-finished project, people out of work and you were not able to build a basis for future growth."

"With some IFC money, we will try to keep those projects moving forward by providing investments of between US$1.5 billion and US$10 billion," he says.

As the World Bank steps up efforts to provide funding to developing countries, Zoellick is urging governments to stay committed to free trade policies.

"I think there is a risk that governments may start to use 'beggar-thy-neighbour' policies such as trade subsidies or currency policies. These financial, economic and unemployment problems are serious enough that they will start to trigger protectionism," Zoellick says.

Governments should at the same time continue privatisation efforts and promote competition in the market place. "Privatisation is important – but privatisation without competition can also lead to big problems. In some countries privatisation just created private monopolies as opposed to government monopolies," Zoellick says.

The issue of food prices also needs to be addressed, even though prices are easing as a result of weaker demand in the wake of the economic slowdown, Zoellick says.

"We need to use this time to think about the food and fuel issue. This is going to come back," Zoellick says. The World Bank has blamed the surge in food prices partly to the use of large tracts of agricultural lands for the production of crops needed to make biodiesel and other alternative fuels, resulting in sharp cutbacks in food production.

"We need to address this issue. I'm not sure I would use price controls or subsidies. I would use safety nets for those most in need," Zoellick says.

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