



### THE EVENTS IN THE ARAB WORLD, THE RECENT GLOBAL CRISIS, AND THE WORLD BANK GROUP

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**Introduction:** This Quick Note is to provide the reader with a perspective on how the World Bank Group has been challenged by and has responded to recent global crises. However, at this historical moment, one cannot begin to write of global or regional issues without noting the momentous events that are now sweeping across the Arab World. Every country is different, but common themes are emerging. The youth's messages are loud and clear: they want voice, employment, social and economic inclusion as well as good economic governance and sound institutions.

No doubt, the loss of life, notably in Libya now, is tragic and the World Bank joins its voice to others in the international community urging an end to the violence. These turbulent times remain however rife with opportunities to tackle old challenges and reshape the economic landscape of the Arab World in favor of growth, diversification, innovation, inclusion and good governance.

**MNA and the World Bank:** While it is too soon to understand the realities that will emerge out of these political events, we must take this unfolding political change into account as we ponder the short and long run economic prospects for the region. The World Bank has long experience in supporting countries through transition - from Latin America to Eastern Europe and

Central and East Asia. Here again the Bank stands ready to support the authorities in the region in designing smart ways to respond to the needs of their youthful populations.

**The Global Crisis and MENA:** In addition to the ongoing political turmoil in the region, this is a time of continuing stress in the global economy and, as recent events show, exceptional stress in the regional economy of the Middle East and North Africa. One source of continuing vulnerability is the uncertain pace of recovery from the global financial crisis that started in 2008. A second source is the return of high food prices. Both of these factors, and especially the latter, have serious implications for the MENA region. This Quick Note will be mostly about what the World Bank has done and proposes to do to help the global and regional economy cope with the stresses and the transition that I have just mentioned.

**Global Crisis and World Bank Response:** The food, fuel and financial crises that began in 2008 had severe consequences for the global economy. Growth and trade were strongly affected. In 2009 the GDP of high income countries contracted by 3.3% while that of developing countries barely grew. At the World Bank, we obviously focused on the impact of such events on the poor and our estimates suggest that 64 million more people were pushed into extreme poverty in 2010 due to these crises. In such circumstances much was expected from the World Bank Group (WBG). The response was rapid. Since July 2008, the WBG has provided \$152 billion to our

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members in loans, grants, equity and guarantees. Of this, more than \$96 billion has been disbursed – more than any other multilateral institution, including the IMF.

In FY2010, the WBG continued to provide record levels of financial resources, technical assistance, and knowledge in support of developing countries. A total of \$44.2 billion was committed in IBRD funds, up from \$33 billion in 2009 and \$14.5 billion in IDA commitments, a 3.5% increase from 2009. The WBG's private sector development arm, the International Finance Corporation, provided \$12.7 billion in investments, a 21% increase, with an additional \$5 billion mobilized from other sources. Almost half went to IDA recipients – 255 projects totaling \$4.9 billion. Finally, the Multilateral Investment Guarantee Agency, MIGA, provided \$1.5 billion in guarantees, up from \$1.4 billion in 2009.

World Bank assistance focused not just on long term infrastructure investments but also on safety net programs involving school feeding, cash for work, and general social assistance. A new Global Food Crisis Response Program was started to target support to poor countries most affected by rising food prices.

**The Food Security Challenge:** Food prices soared in early 2008 and then retreated to a lower level for more than a year. In recent months, they have risen again to very high levels. Since food comprises the largest fraction of the expenditures of poor people, this is a critical matter for the World Bank as a poverty-focused institution. It is also a critical matter for countries, including many in the MENA region, that import a large fraction of their food consumption needs.

The Global Food Crisis Response Program in May 2008. By April 2009, the size of this Program had increased to to \$2 billion and special procedures were adopted to expedite commitment and disbursement of funds to needy countries. As of January 2011, \$1.44 billion had been committed

from the Program and \$1.1 billion had been disbursed. The funds are used to feed poor children and other vulnerable groups, to give nutritional supplements to pregnant women, lactating mothers, infants and small children, and to help defray costs of additional food imports. To date, some 40 low income countries and over 30 million people are being helped through this program.

This program was designed to be a rapid response to short term needs. In addition, there is a need for longer term measures to enhance food security for all countries. At the country level, these measures comprise both investments and policy reforms. The policy issues are complex and require careful deliberation and attention to detail.

**Food Security and MENA:** Food price surges are a matter of special concern for MENA because the region is heavily dependent on imported food. For example, 58% of cereal and 75% of sugar consumption there is accounted for by imports. These two food groups have experienced sharp price rises of 40% for cereals and 77% for sugar in the last six months. Calculations by World Bank staff suggest that price increases in 2010 for these two food groups alone necessitated additional expenditures of \$19 per person (or 0.3% of regional GDP).

Of course, this is an average. Some countries and some households are far more vulnerable to such price increases than others. At the country level, vulnerability is a function not only of dependence on imports but also on available fiscal resources. Countries with fiscal surpluses, such as the Kingdom of Saudi Arabia, do not face the same degree of vulnerability as countries like Yemen, Tunisia, Lebanon, Djibouti, Jordan and Bahrain.

**The Bank and Food Price vulnerability in MENA:** What is the Bank doing to help reduce vulnerability to food price surges? The Bank recommends a three pillar approach to the challenge:

- The first pillar consists of strengthening safety nets so that people with low incomes do not have their access to food severely impaired when prices rise. In general, this involves better targeting of existing cash and in-kind support programs and using the freed-up resources from better targeting to expand the benefits available to the truly needy. The Bank has used the resources of the GFRP to strengthen safety nets in Yemen, Djibouti and West Bank/Gaza.
- The second pillar consists of enhancing domestic food supply by focusing on agricultural productivity and yields. In practice, this involves increased investment in R&D and more efficient management of water and arable land, both scarce resources. The Bank is helping some MENA countries along these lines with financial and/or technical support. Examples include a Farm Irrigation Modernization Project in Egypt and a Rural Development Support project in Djibouti.
- The third pillar consists of reducing exposure to market volatility by improving supply chain efficiency and better management of agricultural risk. In practice, this involves country level diagnostic studies of agricultural supply chains followed by investment and policy measures to address inefficiencies. The Bank is working closely with 10 Arab countries on a diagnostic study for wheat import supply chains. It is expected that the study will lead to recommendations pertaining to investment in critical infrastructure such as strategic grain reserves, port facilities and roads.

The food price shock of 2008 was a wake-up call not just for specific countries but also for the Bank. In its aftermath, we have devoted additional financial and technical resources to improving food security. For the MENA region, lending in the Agriculture and Rural Development

area increased from \$0 in FY2008 to \$359 million in FY2011. Globally, our lending in this sector has grown from an average of \$3 billion per year during FY06-08 to \$4.7 billion during FY09-10. The goal is to increase lending in this sector to some \$6-8 billion a year in the medium term.

In addition, in April 2010, the Bank established a new Global Agriculture and Food Security Program at the request of the G-20. This program supports country-led agriculture and food security plans and aims to help smallholders in particular. This program is being funded in part by the Bill and Melinda Gates Foundation. Approximately \$925 million have been raised so far and \$321 million disbursed.

**The Role of the Private Sector:** So far the focus in this note has been on an outline of selected public sector actions and plans for enhancing food security. However, an important role can be played by the private sector as well. In particular, private sector investment is critical on both the production and distribution sides of the food security equation. Here, note should be taken of the efforts being made by the Saudi private sector. Saudi investors have been actively seeking opportunities to invest in farms in several countries as well as in storage and distribution facilities. This is a worthwhile effort.

However, large scale commercial investments in farming in low income countries must be mindful of several challenges. Foreign investment often provokes local anxieties. These are even greater when the investment involves land and the potential export of food and other agricultural outputs from low income countries. This is why the media often conveys a hostile perception by local populations to corporate farming ventures by foreign investors.

However, such perceptions are not an insurmountable barrier. Responsible agro-investment is a definite possibility and the World Bank can help in making this happen. The World Bank is capable of

playing a multi-faceted role in facilitating private foreign investment. It advises governments on policy frameworks to attract and retain foreign investment and it advises the private sector on corporate governance standards that reduce the potential for abuse and exploitation. In addition to this advisory role, it facilitates private investment through loans and equity participation by the International Finance Corporation. And, where necessary, it reduces political risk by offering guarantees through the Multilateral Investment Guarantee Agency. These instruments of the World Bank can be deployed to support responsible private foreign investment in the food production and distribution sectors of low income countries.

**Conclusion:** We confront important economic challenges in the world today. This Quick Note has described how the World Bank has responded to the global economic slowdown and the food security problem. The task ahead of us is still daunting and it will take the combined efforts of international development agencies, national governments and the private sector to secure a sustainable and prosperous future. The WBG stands ready to work with all of our partners to achieve this.

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