

Why GAO Did This Study

The 40 poorest countries in the world, known as low-income countries (LICs), have been negatively impacted by successive food, fuel, and financial crises since 2007. In response, international financial institutions (IFI), including the World Bank and International Monetary Fund (IMF), have taken actions to increase financial assistance for affected countries. Between 2008 and 2010, Congress appropriated \$3.3 billion to the World Bank's International Development Association, which funds development programs in LICs. Congress also authorized the U.S. representative at the IMF to vote to approve the sale of some of the IMF's gold to increase lending to LICs. LICs' ability to repay debt remains important as financing levels rise and decisions are made about the mix of loans and grants they receive.

GAO was asked to examine (1) the economic impact of the crises on LICs, (2) IFIs' responses and reported results, and (3) IFIs' assessment of the impact of the crises on LICs' ability to repay their debt. GAO analyzed documents and information from the World Bank and the IMF, including data on macroeconomic indicators, financial commitments, and debt analyses. GAO interviewed staff from the World Bank, IMF, and U.S. Treasury. GAO selected three African countries for more thorough analysis, a sample that is meant to be illustrative, not representative.

This report contains no recommendations. The World Bank, IMF, and U.S. Treasury generally agreed with our findings but identified areas to provide greater context.

View [GAO-11-832](#) or key components. For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

LOW-INCOME COUNTRIES

International Financial Institutions Met Many Goals in Response to Financial, Food, and Fuel Crises, but Impact on Spending Difficult to Establish

What GAO Found

In LICs, the recent food, fuel, and financial crises resulted in slower economic growth, higher deficits, and higher inflation, but the macroeconomic impacts were less than experienced by the advanced economies. The crises also slowed foreign direct investment in LICs, which had been growing steadily since 2000. During the crises period, LICs' average economic growth slowed from 7.1 percent in 2007 to 5.3 percent in 2009. IFIs have reported that lower growth rates caused by the crises could lead to increases in poverty in LICs, and our previous work shows that many LICs were experiencing protracted food emergencies and had severe and widespread malnourishment even prior to the onset of the crises. During the crises, food and fuel prices rose significantly, then declined, and have risen again in 2011 to levels experienced during the crises.

In response to the crises, IFIs increased funding and disbursed some funds more quickly to LICs, but the impact of these actions on LIC government spending has been difficult to establish. Between 2008 and 2010, the World Bank committed \$18.1 billion through regular lending and five crisis response initiatives, an increase of 39 percent from the pre-crisis period. Total first year disbursements also increased by 12.7 percent. Three of four of the initiatives designed to increase the speed of disbursements met their goal. However, the proportion of committed funds that have been disbursed in the first year following project approval declined, as compared to the pre-crisis period. Disbursement rates depend on several factors, including recipient country capacity, need, and governance; and the type of lending. The World Bank's International Finance Corporation responded to the crises through investments, trade initiatives, and enhanced coordination with donors, but its response was limited by the availability of resources and recipient countries' limited ability to implement programs quickly. The IMF boosted lending to LICs more than sixfold to \$4.9 billion, which governments could use to bolster their reserves or make international payments. While most LIC governments' spending increased during the crises, we found that the impact of World Bank and IMF actions on spending has been difficult to establish.

According to IFIs' analysis, the crises did not significantly impair LICs' ability to repay their future debt, and thus did not necessitate an increase in their access to grants, which do not have to be repaid, relative to loans. The reliability of this analysis depends on the realism of IFIs' projections, which include quick economic recovery, implementation of policy reforms, and low inflation. According to IFIs' projections, the ability of six LICs to repay their debt improved during the crises, and thus they received more loans instead of grants. However, the IMF subsequently reported renewed risks to the global economic recovery, meaning that projections for future export growth, government revenue, and inflation might be too optimistic. In addition, for the three countries we reviewed, macroeconomic projections did not adequately take into account country-specific vulnerabilities, such as the failure to implement reforms and make planned investments. However, given that the IFIs update projections on a regular basis, any excessive optimism should become evident over time, and some lenders could then increase the amount of grants they provide which would help mitigate potential debt problems.