Overview

The global financial crisis, the most severe since the Great Depression, is rapidly turning into a human and development crisis. The financial crisis originated in the developed world, but it has spread quickly and inexorably to the developing world, sparing no country. Increasingly it appears that this will not be a short-lived crisis. The poor countries are especially vulnerable, as they lack the resources to respond with ameliorative actions. The crisis poses serious threats to their hard-won gains in boosting economic growth and achieving progress toward the Millennium Development Goals (MDGs). Poor people typically are the hardest hit, and have the least cushion. For millions of them, the crisis puts at risk their very survival.

At high-level meetings held in 2008 to mark the MDG halfway point, world leaders expressed grave concern that the world was falling behind most of the MDGs, with the shortfalls especially serious in human development, and issued an MDG Call to Action to step up development efforts. The UN secretary general noted that "we face nothing less than a development emergency." The U.K. prime minister spoke of a "global poverty emergency." These concerns were expressed before the onset of the full-blown global financial crisis. If there was a development emergency then, there surely is one now. The financial crisis threatens serious further setbacks and greatly increases the urgency for action.

A Crisis upon Crisis

For poor countries, this is a crisis upon crisis. It comes on the heels of the food and fuel crises. The triple jeopardy of the food, fuel, and financial crises is pushing many poor countries into a danger zone, imposing rising human costs and imperiling development prospects.

With the seizing-up of the international financial markets in 2008, emerging market countries were the first among developing countries to feel the impact of the financial crisis, given their heavier reliance on private capital flows. Private capital flows to the developing world are seeing their sharpest slump ever, with net flows likely turning negative in 2009—a more than $700 billion drop from the peak in 2007. Many low-income countries are also affected by the private credit crunch; private flows to these countries, including several in Africa, that had increased in recent years are now falling. But these countries are expected to be hit particularly hard in 2009 by a second round of impacts reflecting the global

recession and declining world trade: world gross domestic product (GDP) is projected to decline in 2009 for the first time since World War II and world trade is projected to register its largest decline in the post-war period.

Low-income countries will be affected through reductions in export volumes, commodity prices, remittances, tourism, foreign direct investment, and possibly even foreign aid. These shocks in turn will hurt public revenues, adding to the sizable negative fiscal impact of the food and fuel crises on many countries and putting further pressure on public expenditure programs. In addition, financial systems in low-income countries, even when relatively shielded from the international financial contagion because of less exposure to international financial markets, may be hit by second-round effects as the economic downturn increases problem loans, limiting the availability of domestic financing to businesses.

The impact of the global financial crisis on developing countries is reflected in sharp reductions in their projected GDP growth to rates that are the lowest since the 1990s. Average projected GDP growth in developing countries in 2009 is now only about a quarter of what was expected before the financial turmoil intensified into a full-blown crisis in the latter half of 2008 and a fifth of that achieved in the period of strong growth up to 2007. For developing countries as a whole, growth is now projected to fall to 1.6 percent in 2009, from an average of 8.1 percent in 2006–07. Growth in Sub-Saharan Africa is projected to slow to 1.7 percent in 2009, from 6.7 percent in 2006–07, breaking the momentum of the region's very promising growth revival of recent years. Even these low projections are subject to further downside risks. Countries in Eastern Europe and Central Asia that entered the global crisis with weaker macroeconomic fundamentals are most severely hit, with average growth in the region in 2009 now projected to be negative. Average growth in Latin America and the Caribbean also is projected to be negative in 2009. The current growth projections, adjusted for terms-of-trade changes, imply declining real per capita incomes for more than 50 developing countries in 2009.

Impact on Poverty Reduction and Other MDGs

The sharp slowdown in growth can seriously set back progress on poverty reduction and other MDGs. Food price increases between 2005 and 2008 pushed around 200 million more people into extreme poverty, and about half of them will remain trapped in poverty in 2009 even as food prices recede from their peaks. While food prices have fallen since mid-2008, they remain high by historical standards, and the food crisis is by no means over. The slowdown in growth resulting from the financial crisis will add to the poverty impact of high food prices. The International Labour Organization projects that some 30 million more people around the world may be unemployed in 2009, of whom 23 million could be in developing countries. A worse-case scenario envisages as many as 50 million more people becoming unemployed in 2009. Estimates of the poverty impact of the growth slowdown range from 55 million to 90 million more extreme poor in 2009 than expected before the crisis. These numbers will rise if the crisis deepens and growth in developing countries falters further.

In Sub-Saharan Africa and South Asia, which have high poverty rates, the growth slowdown essentially eliminates the pre-crisis prospect of continued reductions in the poverty count in 2009. Indeed, the poverty count is likely to rise in Sub-Saharan Africa in 2009, with the more fragile and low-growth economies especially at risk. While poverty rates on average are much lower in Europe and Central Asia and in Latin America and the Caribbean, these regions could also see an increase in the number of the poor in 2009. Overall, on current growth projections, more than one-half of

all developing countries could experience a rise in the number of extreme poor in 2009; this proportion is likely to be still higher among low-income countries and countries in Sub-Saharan Africa—two-thirds and three-quarters, respectively.

Experience suggests that growth collapses are costly for human development outcomes, which tend to deteriorate more quickly during growth decelerations than they improve during growth accelerations. Countries that suffered economic contractions of 10 percent or more between 1980 and 2004 experienced more than 1 million additional infant deaths. It is estimated that the sharply slower economic growth resulting from the current financial crisis may cause as many as 200,000 to 400,000 more infant deaths per year on average between 2009 and the MDG target year of 2015, which translates into 1.4 million to 2.8 million additional infant deaths during the period. In poor countries, education outcomes, such as school enrollment, also tend to deteriorate during economic crises—especially for girls.[1]

The long-run consequences of the crisis for human development outcomes may be more severe than those observed in the short run. For example, the decline in health status among children who suffer from reduced (or inferior) food consumption can be irreversible, retarding growth as well as cognitive and learning abilities. Estimates suggest that the food crisis has already caused the number of people suffering permanent damage from malnutrition to rise by 44 million. The financial crisis will exacerbate this impact as poor households respond to decreases in income by further cutting the quantity and quality of food consumption.

The overall outlook for the MDGs, already a cause for serious concern, has become still more worrisome. Strong economic growth in developing countries in the past decade had put the MDG for poverty reduction within reach at the global level, but the triple punch of the food, fuel, and financial crises creates new risks. In the medium term, the proportion of people in extreme poverty in the developing world is still expected to decline, but at a slower pace than envisaged before the crisis because of the slowdown in economic growth.

The food crisis, and now the global financial crisis, are reversing past gains in fighting hunger and malnutrition. Before the onset of the food crisis in 2007, there were about 850 million chronically hungry people in the developing world. This number rose to 960 million people in 2008 and is expected to climb past 1 billion in 2009, breaking the declining trend in the proportion of hungry people in the developing world and seriously jeopardizing the goal of halving this proportion by 2015. These trends call for maintaining the momentum of recent efforts to boost agricultural investment and productivity.

The goal of gender parity in primary and secondary education has seen relatively good progress and is expected to be achieved at the global level. However, prospects for gender parity in tertiary education and other targets that empower women—such as increased participation of women in wage employment in the non-agricultural sector—are less promising. The gender goals face added risks as evidence from past crises shows that women are in general more vulnerable to impact—heightening the need for attention to the gender aspects in policy responses.

Of greatest concern are the human development goals. Based on current trends, most human development goals are unlikely to be met at the global level. Despite substantial improvements in primary school enrollment and completion rates, the world is likely to miss the goal of universal primary school completion, although it could come close. Prospects are gravest in health. Large shortfalls are likely in reducing child and maternal mortality. There have been some encouraging gains in halting and beginning to reverse the spread of major communicable diseases, such as HIV/AIDS and malaria, but progress must be accelerated if the MDG targets are to be met. Large shortfalls are also likely in improving access to basic

sanitation, although there is greater progress on the related goal of improving access to safe drinking water.

At the regional level, Sub-Saharan Africa lags on all MDGs, including the goal for poverty reduction. South Asia lags on most human development MDGs; it will likely meet the poverty reduction goal, although barely. At the country level, a majority of countries will fall short of most MDGs. Middle-income countries have made the most progress toward the MDGs. Many of these countries, however, continue to have large concentrations of poverty and face major challenges in achieving the non-income human development goals. Overall progress toward the MDGs has been weaker in low-income countries, although performance varies considerably across countries within this group. Progress has been slowest in countries in fragile situations. Wracked by conflict and hampered by weak governance and capacities, fragile states present difficult political and governance contexts for effective delivery of development finance and services.

Even at the MDG halfway point, around 75 million children of primary school age were not in school; 190,000 children under five died every week from preventable disease; 10,000 women died every week from treatable complications of pregnancy; more than 2 million people died from AIDS annually, close to 2 million from tuberculosis, and about 1 million from malaria; around 1 billion people suffered from hunger and twice as many were undernourished; and about half of the developing world lacked access to basic sanitation—grim numbers that would be far lower if the world were on track on the MDGs. The world can, and should, do better. Acceleration of progress requires a shared commitment to pursue this development agenda with greater vigor and urgency.

A Development Emergency

A global crisis must be met with a global response. Much of the attention initially was understandably focused on the impact of the crisis and the policy response in developed countries and in major emerging market countries that are closely integrated with international financial markets. But as the crisis has engulfed other, lower-income countries, it has become truly global. It has become clear that the impact on these countries, and the resulting grave risks to development prospects, must be addressed as part of a global response to the crisis. The challenge for the international community is to overcome the global financial crisis and respond to the deepening human and development crisis in poor countries.

The development emergency that now confronts many poor countries calls for commitment to a set of actions that signal a clear resolve to avert the potentially large human costs of the crisis and assist these countries to lay the ground for a recovery of strong growth and accelerated progress toward the MDGs. The stakes are high, and the need for action urgent.

Leaders of the Group of Twenty (G-20), at their summit held in London on April 2, 2009, made important progress in coordinating a global response to the crisis. The summit's outcome showed a clear concern with the serious development dimension of the crisis. Agreements reached at the summit have laid a good foundation for follow-up. Other major meetings in the period ahead—the Spring Meetings of the World Bank and the International Monetary Fund (IMF), the UN International Conference on the Global Financial Crisis and its Impact on Development, and the G-8 summit—can build on the progress made at the G-20 summit by elaborating a fuller agenda and developing momentum in implementation.

The crisis calls for a reaffirmation of the world's commitment to the promise of the MDGs, in the spirit of the international cooperation that gave birth to the MDGs at the turn of the century and to the Monterrey framework for the mutual accountability of both developing and developed countries for the achievement of these goals. It is fitting, therefore, that the G-20 leaders stated in

their London summit communiqué that "we reaffirm our historic commitment to meeting the Millennium Development Goals." In the current context, international cooperation for development is needed more than ever.

Priorities for Action

Because the global crisis originated in the financial markets of developed countries, the first order of business is to stabilize these markets and counter the recession that the financial turmoil has triggered. This calls for timely, adequate, and coordinated actions by developed countries to restore confidence in the financial system and unfreeze the flow of credit and to counter falling demand. Major actions have been taken by these countries on both counts as they have responded with financial sector rehabilitation measures and fiscal stimulus packages. The challenge ahead is to ensure that the actions are commensurate with the scale and depth of the crisis and are appropriately coordinated internationally. Action is also needed to deal with the flaws in financial sector regulation and supervision revealed by the crisis and to establish a more solid foundation for stability in a world of globalized financial markets.

At the same time, strong and urgent actions are needed to counter the impact of the global crisis on poor countries and help them restore strong growth and recover lost ground in their progress toward the MDGs. The report sets out six priorities for action (box 1).

Ensuring an Adequate Fiscal Response

A global slowdown in growth calls for a global fiscal stimulus. Those developing countries with strong fiscal and external positions should make use of the room for fiscal stimulus that they possess. However, most developing countries faced with sharply declining growth and consequent major social disruptions lack the resources to mount any fiscal response, and will in fact experience a further erosion of their fiscal space as public revenues fall and external financing dries up. Let alone implement a fiscal stimulus, many may be forced to cut valuable infrastructure spending and social programs. Additional financing, on appropriate terms, would help them support growth and protect the poor and vulnerable from the impact of the crisis. Enabling an adequate fiscal response in developing countries would be a win-win for all. If financing were available, many of these countries have the opportunities for high-return investments that break bottlenecks to growth, quality of economic management, and institutional capacity to increase spending that would both benefit their future growth and contribute to global demand and hence

BOX 1 Responding to a development emergency: priorities for action

- Ensure an adequate fiscal response to support economic growth and protect poor and vulnerable groups from the impact of the crisis—consistent with maintenance of macroeconomic stability
- Shore up the private sector and improve the climate for recovery and growth in private investment, including paying special attention to strengthening financial systems
- Redouble efforts toward the human development goals, including leveraging the private sector role
- Scale up aid to poor and vulnerable countries hit hard by the crisis
- Maintain an open trade and finance system—including quick action on the Doha Round
- Ensure that the multilateral system has the mandate, resources, and instruments to support an effective global response to the global crisis

recovery in developed countries. Easing the fiscal constraint on developing countries should thus be part of the equation as the world fashions a coordinated fiscal response to the global crisis.

As many as 90 percent of developing countries are assessed to be highly or moderately exposed to the impact of the crisis, as they face slowing growth, high levels of poverty, or both. Three-quarters of the exposed countries lack the fiscal capacity to finance programs to curb the effects of the downturn. Those among them with good macroeconomic management and institutional capacities should be assisted with financing to enhance their fiscal space to respond to the crisis. Thanks to their efforts over the past decade to improve macroeconomic policies and governance, at least one-half of developing countries today have the macroeconomic conditions (taking into account fiscal and external sustainability considerations) and institutional capacities to underpin some fiscal expansion were financing on appropriate terms available. At the individual country level, fiscal response will of course need to be tailored to specific country circumstances.

Countries must also use available scope for domestic resource mobilization. The crisis calls for an even sharper focusing of expenditures on core priorities—infrastructure for growth, key investments in human capital, and social safety nets. Investment projects for new spending must be carefully chosen to address key bottlenecks to growth and maximize development impact. Spending on social safety nets must be targeted to reach the intended beneficiaries—through programs such as conditional cash transfers to poor households, workfare schemes, and maternal-child or school feeding programs.

Supporting the Private Sector

Economic growth is central to poverty reduction and to the achievement of the MDGs more broadly. A vibrant private sector is key to economic growth and job creation. Fiscal stimulus will catalyze sustainable economic growth only if there is a vigorous private sector response. The private sector, in turn, will rebound only if supported by an appropriate enabling environment. Access to finance and infrastructure and the quality of business regulation are three key determinants of the private sector enabling environment.

In the current credit crunch, particular urgency attaches to shoring up the private sector's access to finance for investment and trade, both of which have contracted sharply. Governments, working with development partners, need to move quickly on this front, with a special focus on access to finance for small and medium enterprises that are critical for job creation and that are finding themselves particularly squeezed by the credit contraction. At the same time, the crisis has underscored the importance of broader reforms to improve financial system stability and soundness, including strengthening financial regulation and supervision. Some countries will likely face the need to recapitalize distressed financial institutions and must prepare for that in advance.

The most urgent issues with respect to infrastructure development in the current context also pertain to financing, as both governments and private investors face increased financial constraints. Multilateral financial institutions will need to play a stronger supporting role, including most immediately in shoring up viable ongoing public-private partnership projects facing financial distress. However, more financing is only part of what is needed to meet the longer-term infrastructure challenge in developing countries. For example, it is estimated that Sub-Saharan Africa could reduce its infrastructure financing gap of about $40 billion annually by as much as 45 percent through improved management of investments, reduction of operating inefficiencies, and better cost recovery. Also, even with the tighter financing conditions, countries implementing reforms of the regulatory and institutional framework for public-private partnerships in infrastructure can

expect to attract more private investment—and enhance its development effectiveness. Investments in energy-efficient infrastructure offer the dual benefits of contributing to economic recovery and growth and mitigating climate change. Going forward, carbon markets can play an increasingly important role in mobilizing private financing in support of investments that promote environmental sustainability.

Measured by the World Bank Group's Doing Business and Enterprise Surveys, developing countries have implemented significant reforms to improve their regulatory environments for private sector activity. However, progress has been uneven, and much scope for regulatory improvements remains. The crisis has reinforced findings from research that the aim should be better, not necessarily fewer, regulations. Simplification of regulations—to make them more efficient and streamlined—must ensure adequate protection of public interests. The crisis has underscored the role of appropriate regulatory oversight.

Research also finds complementarity between regulatory reforms and broader improvements in governance. Regulatory reforms have greater impact in better institutional environments. Weak institutional capacities for enforcement undermine the effectiveness and credibility of the regulatory framework. In many countries, firms report corruption as a major constraint to business. Strong institutions and good governance, therefore, are an important underpinning of a conducive environment for private activity—and of development effectiveness more broadly.

Redoubling Efforts toward Human Development Goals

Progress toward the human development goals must be accelerated. The crisis gives added urgency to reinforcing key programs in health and education, such as control of major diseases including HIV/AIDS and malaria, health systems strengthening, and the Fast Track Initiative in education. It also creates pressing short-term challenges, as it calls for a special focus on social protection programs and services that shield poor and vulnerable households from the likely severe human impacts, such as a rise in child mortality. This implies a high priority for primary health care and nutrition programs in rural areas and in poor urban neighborhoods, including paying special attention to gender needs. A strengthening of the social safety nets will bring immediate relief but, in concert with improvement of key services in health and education, it will also help safeguard health and education outcomes in the medium term. Financing these needs will require increased donor support, but countries will also need to create fiscal space by pruning lower-priority spending and seeking efficiency gains in existing programs.

The crisis also calls for better leveraging the role of the private sector in human development. Governments are key actors in the financing and delivery of human development services, but the private sector (for-profit and non-profit) is playing an increasingly significant role. For example, one-half of health spending in many developing countries comes from private sources. Recent surveys in Sub-Saharan Africa and South Asia find that more than half of the MDG-related maternal, reproductive, and child health services used are privately provided. In South Asia, the share of private enrollment in primary and secondary education averages about 30 percent. The scale of the MDG challenge calls for mobilization of resources from all sources, and there is significant potential for greater private sector contributions—not only of more resources but also innovation, flexibility, and improvements in quality that private participation can bring. There are successful examples of different combinations of government and private partnerships in service delivery and financing, and countries can consider options that best suit their circumstances. To work effectively with the private sector, governments need to develop requisite

capacities for regulation and oversight, use incentives judiciously, and improve governance and accountability arrangements.

The expanded potential of private international financing (from non-governmental organizations, foundations, and business corporations) for human development in poor countries and related innovations in financing modalities and delivery vehicles also needs to be effectively tapped. Important examples of private giving include sizable contributions, from the Bill and Melinda Gates Foundation, for example, into the Global Alliance for Vaccines and Immunization and the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The Advanced Market Commitment mechanism represents an innovative way to leverage corporate finance in development of treatments for diseases in poor countries.

Scaling Up Aid to Poor Countries

The urgency for donors to deliver on their aid commitments cannot be overemphasized in the current context. Official development assistance (ODA) from members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) rose by about 10 percent in real terms in 2008. This is a welcome development, following declines in ODA in both 2006 and 2007. In real terms, ODA from DAC donors in 2008 was about $29 billion short of the Gleneagles target of $130 billion per annum by 2010. ODA to Sub-Saharan Africa was about $20 billion short of the 2010 target of $50 billion per annum. Donors should scale up rapidly to deliver on these commitments. Although the crisis has put donors' fiscal positions under increased pressure, the additional sums needed to meet the Gleneagles commitments amount to a fraction of the support they have provided to rescue individual financial institutions in their countries and a miniscule proportion of the fiscal stimulus packages they have announced.

Indeed, the crisis calls for going beyond the commitments made at Gleneagles as the needs of poor countries have increased sharply. One option for additional support is the proposal by President Zoellick of the World Bank that developed countries invest 0.7 percent of their stimulus packages, or about $15 billion based on the packages announced to date, in a Vulnerability Fund to help developing countries. The fund would support three crisis-response priorities in developing countries that lack the resources to act on their own—strengthening social safety nets, funding investments in essential infrastructure, and supporting financing for small and medium enterprises and microfinance institutions. The resources would be channeled through multilateral and bilateral agencies, in programs backed by safeguards to ensure that they are well spent.

As donors pick up the pace in delivering aid, progress on the Accra Agenda for Action to improve aid effectiveness—better aid alignment and harmonization, improved aid predictability and timeliness, and a stronger focus on results—should also be expedited. Improving the effectiveness of the use of resources is even more important in times of crisis and related budget constraints. Moreover, as the aid landscape changes with a growing role of non-DAC official donors and private sources of aid and an increasing array of aid modalities, aid coordination frameworks will need to encompass a broader range of development partners.

Private aid has emerged as an increasingly important player in development finance. The OECD estimated private international giving at $18.6 billion in 2007, but this is widely considered to be an underestimate. Alternative estimates place private international giving from the United States alone at $34.8 billion in 2006. The sources of private giving are various—foundations, corporations, and civil society organizations of different types. The rising role of private assistance has spawned innovative public-private partnerships in development activities, especially in health, education, and climate change. There is some concern that the financial crisis may interrupt the rising

trend in private aid. Nonetheless, private aid today represents a source that, if effectively deployed, can be an important complement to public aid and a partner in development.

Maintaining an Open Trade and Finance System

It is vitally important to maintain trade openness and resist the recent rise in protectionist pressures. The food, fuel, and financial crises have put great strain on the world trading system. In early 2008, sharp increases in food prices triggered some harmful trade policy responses, including the imposition of trade taxes, quotas, and even outright export bans.[2] Protectionism risks have intensified with the financial crisis as economic activity collapses and unemployment rises. A number of countries have raised border barriers or subsidized export or import-competing industries such as automotive and steel, and there has been a rise in inward-looking "buy national" policies. Such responses retard needed market corrections, distort trade, and risk retaliation. The world can ill-afford competitive beggar-thy-neighbor policies that would only deepen the slump in global trade and undercut prospects for economic recovery for all.

At the London summit, G-20 leaders reaffirmed their commitment to refrain from raising new barriers to investment or trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO)-inconsistent measures to stimulate exports, and agreed to rectify promptly any such measures. This commitment must be followed through with firm resolve—in contrast to a similar commitment made by the G-20 leaders at their summit in Washington, DC, in November 2008 that was not adhered to by a majority of G-20 members.

The crisis increases the urgency of bolstering multilateral cooperation in trade. A quick and successful conclusion to the Doha Round of trade negotiations would help to ease protectionist pressures, keep markets open, and strengthen the rules-based multilateral trading system. It would also provide a much-needed boost in confidence to the global economy at a time of high stress and uncertainty.

Trade has been a powerful force for growth and poverty reduction, and in turn for progress toward the MDGs, in developing countries. Maintaining and improving developing countries' access to international markets is therefore a key element of the development agenda. A complementary priority is the strengthening of support for trade facilitation to address behind-the-border constraints to trade—improvement of trade-related infrastructure, finance, regulations, and logistics such as customs services and standards compliance. To take advantage of trade opportunities, developing countries need to enhance their competitiveness by reducing the high trade costs associated with the behind-the-border barriers. The ease of moving goods internationally has become an increasingly important determinant of competitiveness in the globalized marketplace. Research shows that in many low-income countries trade facilitation can be at least as important as further reduction in trade tariffs in boosting trade.

In support of trade facilitation, aid for trade should be scaled up substantially. While rising overall, aid for trade from bilateral sources declined in 2007. More of such aid needs to be directed to low-income and the least developed countries, which currently receive only about one-half and one-quarter of the total, respectively.

It is also important to preserve the openness of the international financial system. There are widespread concerns that government interventions in financial systems in advanced countries may be accompanied by pressures on financial institutions to curtail cross-border lending. A shift toward such financial mercantilism must be resisted. It would particularly hurt financial flows to developing countries, which are already under increasing stress as a result of the financial contagion and the

potential crowding-out implications of the sharply increased borrowing requirements of advanced country governments.

The international community has recognized the importance of addressing the crunch in trade finance in a coordinated fashion. The G-20 leaders agreed at their London summit to ensure the availability of at least $250 billion of trade finance over the next two years through their export credit and investment agencies and through the multilateral development banks (MDBs)—including up to $50 billion of trade liquidity support over the next three years through the new Global Trade Liquidity Pool introduced by the International Finance Corporation (IFC).

Empowering Multilateral Institutions

The international financial institutions (IFIs) have a crucial role to play in supporting an effective response to the global crisis and the development emergency that now confronts many poor countries. They are essential to forging a coordinated global response to a global crisis. Two key priorities are meeting the sharply increased needs of developing countries for balance of payments financing and budget support for critical public spending such as social safety net programs and key infrastructure investments, and shoring up the private sector in these countries through support for trade financing, recapitalization of banks, and financing for small and medium enterprises. The IFIs are responding with increased financing and facilities and processes designed to accelerate the speed of response, including facilities with a special focus on support to the poor and vulnerable, such as the World Bank's Vulnerability Financing Facility. But they will need more resources to meet the needs.

The IFIs are facing an unprecedented rise in demand for financing. With the slump in private capital flows, estimates of developing countries' financing gap in 2009 reach as high as $1 trillion. The IFIs will need to play a role in filling some of this gap, including using their leverage ability to help revive private capital flows. In this context, the G-20 leaders at their London summit took timely action in agreeing to support a sizable increase in resources available to the IMF and the MDBs.

The G-20 leaders agreed to support a tripling of resources available to the IMF to $750 billion. They also supported a general allocation of the Special Drawing Rights (SDRs) equivalent to $250 billion to increase global liquidity, $100 billion of which will go directly to emerging market and developing countries ($19 billion to low-income countries). The IMF has moved quickly to strengthen its lending framework, including establishing a new Flexible Credit Line to provide large and upfront financing to emerging market economies with strong fundamentals and policies, enhancing the flexibility of the regular stand-by arrangements, doubling access limits for emerging markets and low-income countries, and reforming conditionality to make it more focused and tailored to country circumstances. The IMF plans to step up its lending to low-income countries to around $3 billion a year over the next two years—triple last year's level.

The G-20 leaders also supported an increase in MDB lending of $100 billion to a total of around $300 billion over the next three years and agreed to ensure that all MDBs have the appropriate capital. They supported a 200 percent general capital increase at the Asian Development Bank (ADB) and reviews of the need for capital increases at several other MDBs. They also agreed to support, through voluntary bilateral contributions, the World Bank's Vulnerability Framework, including the Infrastructure Crisis Facility and the Rapid Social Response Fund. The concessional windows of the African Development Bank, the ADB, and the World Bank have received significant increases in resources through recent replenishments. Also, debt relief provided through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) has increased

fiscal space in many poor countries. Nonetheless, the rise in the financing needs of low-income countries hit hard by the crisis will test the adequacy of available resources. An immediate need is for donors to honor existing pledges to the MDB concessional windows and to the MDRI.

The MDBs will also need to review existing financing instruments and constraints on capital utilization to increase the flexibility of response and make the capital go further. Areas that may be considered include increasing individual country limits on lending; raising limits on the proportion of quick-disbursing financing; front-loading commitments; accelerating disbursements on existing projects; and allowing low-income countries access to non-concessional windows while ensuring debt sustainability. Increased demand for risk mitigation and public-private partnerships will call for more fully exploiting the leverage of the MDBs' private sector arms, such as the IFC, and guarantee instruments.

The role of the IFIs, of course, extends beyond financing. Knowledge is a core IFI comparative advantage. A crucial role for IFIs in the context of the current global crisis is to inform policy making by analyzing the international spillovers of national policy actions and showing the interconnected nature of the challenges, and to highlight the need to ensure that national responses are consistent with the global good. Amid rising pressures for policies to turn inward, the IFIs' role in warning against the risks of trade protectionism and financial mercantilism is indispensable. Drawing policy lessons from the current crisis, especially but not only in financial regulation, will be another key area. The IMF will have a particularly important role in enhanced surveillance of risk in the globalized financial markets, in collaboration with a new Financial Stability Board.

The crisis has highlighted the need to reform the IFIs—to align their governance with today's economic realities—and more broadly to reconfigure 20th-century global institutions to match 21st-century global challenges. As an old Chinese proverb says, a crisis is an opportunity riding the dangerous wind. The present crisis can set the stage for a new multilateralism that supports sustainable and inclusive globalization.

Notes

1. Currently available information provides only a partial picture of the impact of the crisis on poverty and human development outcomes. A recent proposal by the United Kingdom seeks to establish a Global Poverty Alert to capture fuller, real-time information to underpin the design of policy responses. The communiqué of the recent G-20 summit in London called on the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

2. Distorted trade policies are part of the reason for the emergence of the food crisis in the first place.