THE DEVELOPING WORLD AND FINANCIAL CRISIS

Financing for development is no longer about the old paradigm of aid dependency or charity, or about the North teaching the South. It is about an investment in a stable and inclusive future. That requires including new voices at the table, boosting South-South partnerships, and accepting that the North must learn to learn from the South. Today, as the world economy is buffeted by the worst financial crisis seen in decades, a crisis that entails grave implications for developing countries and threatens to undo the hard-won gains in growth and development of the past years, the world needs international economic cooperation even more.

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The world is in the midst of a historic economic crisis whereby, in the next year, developing countries could account for all of GDP growth worldwide. Having stronger voice and representation from developing countries is increasingly important in such a world. Six months ago, President Zoellick asked me to be the World Bank's Chief Economist, making me the first person from a developing country to hold this post since the World Bank was created over 60 years ago. In asking me to lead the Bank delegation to the key meeting in Doha, he wanted to have someone from the developing world represent the institution, its analysis, and its ideas. This is more than symbolic. Financing for development is no longer about the old paradigm of aid dependency or charity, or about the North teaching the South. It is about an investment in a stable and inclusive future. That requires including new voices at the table, boosting South-South partnerships, and accepting that the North must learn to learn from the South.

It is almost seven years since the international community met in Monterrey, Mexico, and agreed on a mutual accountability framework for development cooperation, whereby developing and developed countries resolved to work together to promote economic growth and foster the achievement of the Millennium Development Goals (MDGs). At international meetings earlier this year, which marks the halfway point to the 2015 target year for the achievement of the MDGs, we noted the substantial progress that has been made under this framework of cooperation as well as the need to intensify our efforts to address the tough challenges that remain.

Today, as the world economy is buffeted by the worst financial crisis seen in decades, a crisis that entails grave implications for developing countries and threatens to undo the hard-won gains in growth and development of the past years, the world needs international economic cooperation even more. Our meeting in Doha provides a timely opportunity to reaffirm and strengthen our commitment to the framework for cooperation and mutual accountability agreed in Monterrey.

Over the past year, developing countries have faced the triple jeopardy of food, fuel, and financial crises. As a result, many developing countries today are entering a danger zone. Growth in developing countries that averaged 7.8 percent in 2006-2007 is now projected to slow to 4.5 percent in 2009. The economies of high-income countries, many of which have already entered into a recession, are now expected to contract by 0.1 percent in 2009, with global growth down to one percent. There is much uncertainty and even these scenarios could be optimistic. Some developing countries will be hit much harder than the average, experiencing growth that is negative in per capita or even absolute terms.

While the channels of transmission may differ, virtually no developing country, be it an emerging market country or a poor country in Africa, has escaped the impact of the widening crisis.

Coming on the heels of the food and fuel price shocks, the global financial crisis could significantly set back the fight against poverty and progress toward the MDGs. Sharply tighter credit conditions and weaker growth are likely to cut into financing available to invest in infrastructure and meet education, health, and gender goals. The poor will be hit hardest. Current estimates suggest that a one percentage point decline in developing country growth rates pushes an additional 20 million people into poverty. Already, more than 100 million people have been driven into poverty as a result of the rise in food and fuel prices.

In an increasingly globalized world, where crises can spread quickly across the globe, the response must be global, coordinated, and fast. Policy challenges need to be addressed at the country level, but it is more critical than ever that the international community acts in a coordinated and supportive way to make each country's task easier.

Lessons from earlier crises point to the importance of safeguarding investment in long-term growth and development. As developing country budgets adjust to a new fiscal reality, careful management of resources will be necessary to safeguard investment in infrastructure and human development, while ensuring that the poor and vulnerable are protected through well-designed social safety nets.

Developing countries must also take steps, appropriate to their circumstances, to strengthen their financial systems, to place them on a sounder footing and avoid disruption in access to credit, especially to small and medium enterprises that are crucial to job creation.

It is critical that aid flows to developing countries be maintained, and past commitments honored and supplemented. At some 100 billion dollars per annum, official development assistance volumes are modest in comparison to the trillions of dollars being spent on addressing the financial crisis in developed countries. We must also press ahead to implement the Accra Agenda for Action to improve aid effectiveness.

In the face of a prospective decline in private capital flows to developing countries in the aftermath of the financial crisis, we must intensify our efforts to catalyze and leverage private capital in support of development, including through innovative public-private partnerships. On current projections, net private capital flows to developing countries could drop from about one trillion dollars in 2007 to roughly half that level in 2009.

It is also imperative to resist protectionism and avoid turning inward in times of financial uncertainty. We welcome the commitment expressed by G-20 leaders at their November 15 summit to strive to reach agreement this year on modalities that lead to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. Progress on that front would provide a much-needed boost to confidence in the current difficult environment. It will support the recovery of global trade, which on current projections could fall in 2009 for the first time since 1982, and the reinvigoration of economic growth. Coordinated action is also needed to maintain the flow of trade financing.

The current global financial crisis poses major challenges, but it also creates opportunities. A vigorous response to the crisis can set the stage for a new multilateralism that supports sustainable and inclusive globalization. There is a mismatch between 20th century global institutions and 21st century global challenges. The G7 framework is no longer sufficient. The new approach should not be a fixed or unitary system, but a flexible and inclusive network that includes the rising economic powers such as the BRICs but also representatives of the poorer countries, links up various international institutions (IMF, FSF, WBG, WTO, UN) and works on issues beyond trade and finance to include development, climate change, and fragile states.

The old North-South paradigm no longer fits today's world, and must give way to a broader framework for cooperation and learning, including South-South and South-North.

The World Bank Group stands ready to play its part. Working with partners, the Bank can help in what must be a multi-faceted response to the current crisis, drawing on its full range of financial, analytical, advisory, and coordinating resources – to protect the poor and vulnerable from immediate and long-term harm, assist the financial and private sectors in responding to the crisis, support countries in managing the fiscal challenges, and avoid cuts and delays in investments upon which economic recovery and long-term development will depend.

The World Bank has moved quickly to help countries deal with the food and fuel price shocks, through a 1.2 billion dollar Global Food Crisis Response Program that is under accelerated implementation and an Energy for the Poor initiative that is at an advanced stage of preparation.

The World Bank Group will substantially increase its financial support to developing countries in response to the financial crisis and underpin that with stepped-up technical and advisory services.

- The International Bank for Reconstruction and Development (IBRD) could make new commitments of up to 100 billion dollars over the next three years. This year, IBRD lending could almost triple to more than 35 billion dollars compared to 13.5 billion dollars last year.
- Following its record 15th replenishment, the International Development Association (IDA) has authority to commit 42 billion dollars for the next three years, which can be frontloaded to meet the needs of low-income countries, including many in Africa.
- The International Finance Corporation (IFC) is launching four new facilities for bank recapitalization, infrastructure financing, trade facilitation, and refocused advisory services. Combined with financing mobilized from others, these new facilities could provide more than 30 billion dollars over the next three years.
- The Multilateral Investment Guarantee Agency (MIGA) can also provide much needed risk mitigation for flows of private finance to developing countries.

The reform of the Bretton Woods Institutions constitutes part of the agenda for a new multilateralism. A modernized World Bank Group must represent the international economic realities of the 21st century and recognize the role and responsibility of growing stakeholders. Voice and Participation is an issue for resolution by World Bank shareholders. Last month, shareholders endorsed an initial package of reforms. As a second step, shareholders agreed that the Bank should undertake a comprehensive work program to move toward a more equitable distribution of voting power between developed and developing countries. The Zedillo Commission, created by President Zoellick to look at World Bank Group governance more broadly, will report back next year.

The international community must work together to overcome the financial crisis and prevent it from triggering a development and human crisis. It also must seize the opportunity to lay the foundation for a new economic multilateralism that is responsive to today's realities and challenges. The World Bank Group is fully committed to work with partners in this effort.