For Official Use **DCD/DAC(2009)12/REV2**

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

06-May-2009

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DCD/DAC(2009)12/REV2
For Official Use

GLOBAL DEVELOPMENT CHALLENGES AT A TIME OF CRISIS - ISSUES NOTE

DAC Meeting, 12 May 2009

This document is submitted for APPROVAL under Item 3 of the Draft Annotated DAC Agenda [DCD/DAC/A(2009)8]. It will be for DISCUSSION under Item 3 of the Draft Annotated HLM Agenda [DCD/DAC/A(2009)7/REV2].

Contacts:
Andrew Rogerson- Tel: +(33-1) 45 24 90 34 - E-mail: andrew.rogerson@oecd.org
Suzanne Steensen - Tel: +(33-1) 45 24 76 23 - E-mail: suzanne.steensen@oecd.org

English - Or. English

JT03264121

GLOBAL DEVELOPMENT CHALLENGES AT A TIME OF CRISIS – ISSUES NOTE

TABLE OF CONTENTS

KEY ISSUES AND RECOMMENDATIONS

A. Delivering on pledges.

1. Recent OECD pledges on trade finance, investment, and aid underscore the importance of rejecting protectionism and of acting counter-cyclically. On aid, DAC members are still at least 20% short overall of their global ODA commitments, even after most of these have been reducing in line with lower donor growth. Aid to Africa is falling even further behind agreed pledges, which were not so closely linked to donor GNI. There is also a significant risk of additional aid tying as a result of the crisis.

- ***Members should reinforce the domestic case for scaling up ODA in the face of the crisis. They should reject any rigid linkage of external commitments with donor economic cycles.***

- ***Members should agree to resist pressures to tie aid. They should agree not to retie aid that has already been untied, nor to tie any new aid programs.***

B. Embedding the Accra Agenda for Action into the crisis response.

2. Multilateral crisis response initiatives focus on trade finance, employment and social protection and critical infrastructure support, as well as on agriculture and food security, all of which are high on the international agenda[1]. The relevant facilities, which aim to replicate specific sectoral solutions quickly across countries, need to build on national intersectoral priorities and to respect country accountability systems. In addition to co-ordination within thematic initiatives, there is need for a co-ordinated overview of country situations and donors rapid response capacity. Along with timely and adequate collective action on financing, improving the quality and effectiveness of aid should be the cornerstone of Members' response.

- ***Members should signal clearly that crisis responses should be formulated at the country level, mobilise existing coordination processes, and build on national strategies.***

- ***Coordination of needs and forward aid intentions at the country level should be reinforced, using all existing in-country processes, such as Consultative Groups and Round Tables.***

- ***Key commitments of the Accra Agenda for Action on country ownership, use of country systems and predictability should be integral to the crisis.***

- ***Demonstration that crisis related aid is deployed using best practices in aid effectiveness should be seen as critical for continued public support for ODA.***

1. The HLM is invited to endorse a Policy Statement on Employment and Social Protection [DCD/DAC(2009)14/REV1]

C. Signalling greater predictability in the multilateral response.

3. For low-income countries, relatively little by way of additional concessional resources has yet been offered, and then only on terms and timing that are not yet certain. Absent such predictable new resource envelopes, the major multilaterals have rightly offered to redeploy their existing programmes quickly toward priority crisis-led needs.

4. From a partner country standpoint, however, such redeployment entails the risk of exhausting known country allocations sooner. This might reduce take-up of the facilities offered, or require sacrificing other investments needed to reach the MDGs. It is up to the underlying DAC donors to break this impasse by signalling greater predictability.

- ***Members should confirm that the calendar of future multilateral replenishments will be adjusted as necessary to match emerging needs at the country level.***

- ***Members should confirm that any voluntary contributions to multilateral crisis-response facilities are additional to their bilateral programs for the groups of countries concerned.***

D. Ensuring complementarity between ODA and other development flows.

5. The crisis needs to be tackled using all instruments available, not just ODA. A wide array of instruments, channels and sources do not now count as ODA, yet deliver important development results. This includes other official flows, including much non-DAC assistance, and a variety of "innovative finance" and public-private partnership schemes and philanthropic and voluntary contributions. It could soon include major new activities and sources linked to climate change and other global public goods. It is essential to make the most of possible synergies between these sources and actors and ODA and the DAC. This would also sustain public awareness and support for ODA in relation to other flows.

- ***Members should confirm that a priority for DAC work would be to classify and benchmark this landscape of activities beyond ODA, and aim for greater understanding of ODA in relation to these other forms of support.***

E. Keeping an exit from the crisis in view

6. It would be a cruel distraction if a "perfect" recovery from the crisis meant, at best, a return in 2011 to the conditions of 2007, and thus four more years lost on the way to the 2015 MDG horizon. By the same token, legitimate crisis responses involving, for example, safeguarding of employment, social protection and infrastructure investment and maintenance must ultimately support an even stronger focus on long-term growth and the MDGs. Aid provides a bridge to help countries achieve this transition. This requires special efforts while there is inadequate domestic fiscal space to do so, and in a context of crisis.

- ***Members should agree that thematic approaches and facilities developed in the crisis response context need to be kept under constant review, and be phased out when necessary so as not to impede or distort long-term recovery nor fragment the global architecture.***

In the coming months, DAC members will face decisions on scaling up crisis response assistance. At the same time, they will be negotiating on the financing component of the post-Kyoto Climate Change regime. These new demands will need to be carefully distinguished and explained to the public, along with the nevertheless fundamental linkages between the development and the climate change agendas. The complex issues of ODA targets and additionality will also need careful treatment. *(Special theme for breakfast discussion).*

1. THE CRISIS AND ITS IMPACT

7. HLM participants meet on 26-27 May at a time of global financial and economic crisis, the worst since World War II. The crisis is evolving rapidly, and low income countries are now also caught in the deepening global recession. There are critical issues for the DAC HLM to consider in their support of low-income countries. This crisis takes place within the same timeframe as negotiations on climate change financing. There is also an opportunity for donors to take priority actions to meet the crisis and scale-up to meet their Gleneagles ODA targets by 2010.

Severity, longevity, uncertainty

8. The crisis is likely to be more severe than predicted even at the end of 2008.

- For the OECD area, the OECD Economic Outlook forecasts a 4.3% contraction in 2009.
- In the developing world including the emerging economies, the World Bank predicts 2.1% economic growth, down from the 4.4% expected at the end of 2008. In particular, China's growth projections have been revised downward to 6.5% from 7.5%[1].
- For sub-Saharan Africa, the IMF forecast a 2009 growth rate of 1.7%[2], down from an original 6.7%.

9. The severity and longevity of the crisis and its impacts are expected to remain uncertain for some time, despite an optimistic crisis recovery outlook: the IMF expects world growth in real terms to resume and reach 2% by the end of 2010.

Contagion channels: trade, FDI, remittances, aid

10. The risk of a prolonged crisis is especially severe for developing countries, where this crisis comes as an exogenous shock made worse by their already weak position due to the volatility of food and energy prices. In the short-term, low-income countries are affected by the global financial crisis through indirect or "second-round" impacts, due to the fact that they are less reliant on private flows and that pressures resulting from decreased commodity exports in both volume and price take some time to appear. Employment consequences in the poor in developing countries are difficult assess due to the scale of the informal economy. However, recent reports can highlight examples of impact of the crisis on individual countries: China – 20 million out of work, Cambodia/garments – 30,000 laid off in 2008 (10% of the workforce), India – 500,000 jobs lost in 3 months in export sectors and Laos – 11, 5000 jobs jeopardised as hydro dam construction suspended, S. Africa – 5,500 jobs cut in mines in February 2009.

11. The channels through which the crisis is spreading to developing countries include trade, FDI, remittances and aid.

12. **Trade** is expected to contract by 10.2% in 2009, with developing country exports falling by 6.4%.[3] Aggravating the situation is the decline in trade finance, which is affecting small producers in particular. Already faced with high food and oil import bills from 2007-8, low-income countries face lower demand and lower prices for their exports today, on which a major share of their tax revenues also depend. They will find it impossible to maintain public expenditure against sharply increased current and fiscal

account deficits without extraordinary levels of external assistance. The services industry faces a shortfall in earnings due to decreased tourism (e.g. Ethiopian Airlines as one of the country's main earners of foreign exchange), and exporters of inputs to the manufacturing sector could also suffer from lower demand (e.g. Mozambique's aluminium, Zambia's copper).[4] 13. Current IMF and World Bank estimates are that **remittances** to developing countries (USD 305 billion in 2008 including intra-LDC flows) stagnated in the second half of 2008. Even considering one-off repatriation boosts remittances are expected to decrease sharply in 2009 due to rising unemployment in OECD economies. Remittances are also very unevenly distributed. The vast majority of remittances go to middle income countries only USD 9 billion is transferred from DAC member states to all LDCs, compared to about USD 30 billion of ODA.[5]

14. The outlook for net private capital flows – which includes direct investment, net portfolio flows, and other long- and short-term net investment flows including official and private borrowing – is projected to decline by 82 percent in 2009 to USD 165 billion[6]. **FDI** flows are considered to be a more stable and accessible source of external financing than private debt and equity portfolio flows, yet the IMF World Economic Outlook projects that FDI inflows in 2009 will fall by 33% relative to 2008. This has serious consequences for some low-income countries. In 2008, the stock of FDI reached USD 62 billion in Sub-Saharan Africa. In some low-income countries (e.g. Chad, Mauritania, Sudan, Zambia) FDI represents a major capital source for the large oil and mining sectors. Lower returns driven by lower international prices provide less incentive for investment. Many multinational corporations have also curtailed or postponed their investment plans for cross-country, strategic reasons, reducing FDI flows and confirming their procyclical nature.

15. **Aid** flows represent an important share of GDP in the poorest developing countries, amounting to 8.5% of the GNI of least developed countries.[7] In Sub-Saharan Africa, ODA represented 65.4% of net capital flows from 2000-6. This reveals just how important ODA flows can be to sustain long-term economic activity – it is not just a question of relying on aid as a stop-gap measure. Even before the economic and financial crisis, at a global level donors were not on a trajectory to meet their Gleneagles commitments to significantly increase overall aid, including nearly doubling aid to Africa by 2010. It is critical for donors to increase their commitments to scale-up funding of key expenditures for long-term growth, including for infrastructure and human development, or else risk a reversal of progress thus far achieved towards the MDGs.

16. The past two decades have raised demand for reform of the global architecture, given the importance of emerging economies and economic weight both in stimulating growth and in providing external assistance. Linkages between the emerging South and developing South are increasingly important, as evidenced by the 45% increase of China-Africa trade in 2008 to USD 107 billion.[8] In 2007, China's development assistance, excluding debt relief and concessional loans, was around 1.4 billion USD.[9] China's aid flows are programmed on 3-year cycles, and its aid to Africa is likely to remain stable in the next few years.[10] In 2008, India announced a USD 5 billion programme of grants and credits for Africa. In the current economic downturn, the large emerging economies may well increase their trade, investment and aid flows, relative to DAC donors.[11]

Crisis overlaid on long-term vulnerabilities

17. Concerns with the crisis, with effective paths to recovery, and with protecting those most exposed from severe harm necessarily dominate the international agenda today.

18. However, for many developing and especially low-income countries, the **crisis is superimposed on earlier vulnerabilities**. Structural weaknesses in domestic resource mobilisation (extremely low savings rates, weak tax systems, embryonic capital markets) sharply increase their sensitivity to even modest balance of payments and fiscal shocks. Safety-nets supported by formal labour markets and welfare systems have limited coverage where they exist at all, and household assets are mostly scarce and illiquid.

The World Bank estimates that the highest multipliers in terms of developing countries responses would come from increased infrastructure investment and support for SMEs and microfinance[12].

19. Human capital is also usually more fragile in low-income context. This both amplifies the damage the crisis can cause and constrains the path toward renewed growth and poverty reduction. One of the key lessons of the Asian and Latin American crises was the importance of early public interventions to **maintain basic health coverage** and **keep children in school**, for example, in the face of otherwise devastating pressures to the contrary. In some cases, notably **infant nutrition**, small short-term investments have large multiplier effects, contributing to success in other MDGs including maternal health, infant mortality and education and can avoid massive, irreversible losses.

20. **Global climate change** is another and growing source of vulnerability. The need to adapt to its unavoidable effects will entail extra social and private costs. As in developed and middle-income countries, the path to recovery will need to be sustainable, drawing on low-carbon growth opportunities. But for low income countries, which are negligible sources of greenhouse gases, and where access to energy has to be multiplied up as part of the development process, this will require tailor made solutions.

21. **Fragile states** suffer from many of these risks, for example, many rely disproportionately on commodity exports, remittances and FDI related to natural resources for their revenue. They also have an already weak ability to sustain public expenditure on human capital.

Thematic impact and 2-way link to MDGs

22. The crisis is likely to delay attainment of the MDGs, even if it does not, as many fear, significantly worsen the depth and breadth of poverty in the short term:

- **A "perfect" recovery by 2011 to conditions obtaining in 2007 means four more years lost on the road to 2015.**

23. These setbacks are incurred now. In addition, there are likely long-term human development costs (especially in terms of education, nutrition and health status). Based on the poverty impacts of previous crises, it is possible to extrapolate the impacts on poverty. In 1996-98, poverty headcounts jumped from 11% to 19% in Indonesia. From 1980-2004, a total of over one million additional infant deaths occurred in the countries whose economies contracted by 10% or more. It is expected that this current crisis could lead to 400,000 more infant deaths every year[13] Initial estimates for 2009 suggest that in the current situation, an additional 53 million people will be in a poverty trap living on less than USD 1.25 per day.[14]

Overall estimates of additional funding needs

24. The IMF and World Bank have indicated a range of financing needs from a minimum of USD 25 billion for low-income countries to USD 700 billion for developing countries as a whole should they be directly hit by large-scale unravelling of their private international financial flows.[15]

- Estimates are necessarily indicative[16] and primarily based on balance of payment shocks, rather than on any *additional* costs related to reaching the MDGs.

25. The **IMF** projects that, at a minimum, USD 25 billion in additional financing will be required in 2009 to counter balance of payments shock in 22 LICs, where reserves will likely fall below comfortable levels of imports.[17] This minimum case represents 80% of ODA flows to these countries in recent years.[18] In a "bad case" scenario in which LICs suffer simultaneously: a balance of payment shock coupled with other shocks (lower prices of oil, commodities and food; lower foreign demand for LIC manufacturing

exports; and lower financial inflows [excluding ODA]), about USD 138 billion would be necessary for 48 countries whose reserves would fall below 3 months of imports.

26. **World Bank** estimates include additional financing need for middle-income countries also. They indicate that in 2009, 104 of 129 developing countries will not have sufficient current account surpluses to cover private debt coming due. Taking into account private sources of financing (equity flows and private debt disbursements), 98 countries will still have a financing gap of about USD 268 billion. Should loan renewals come in lower than expected, or if capital flight increases significantly, this figure could rise to USD 700 billion.

2. GLOBAL RESPONSES

OECD Strategic Response

27. The OECD is implementing a two-pronged strategic response to the crisis[19] focusing on:

a. finance, competition and governance;

b. restoring sustainable long-term growth.

28. In the short-term, the strategy aims to foster conditions for effective and appropriate regulations, identifying areas where there may be regulatory gaps, while in the long-term it proposes a path of sustainable long-term growth post-crisis. A level playing field for a better, cleaner and fairer economy in the OECD area will be essential for overcoming the crisis also in developing countries.

29. The crisis response should focus on initiatives that can be unwound as conditions in financial markets are established that avoid future instabilities. Forging a path **towards long-term sustainable growth** should be a criterion in implementing new policies. Some crisis measures will eventually be replaced by deeper labour market, competition and other regulatory reforms, once recovery takes hold. Building on its comparative advantage in promoting whole-of-government approaches, the OECD is setting up a process to monitor policy developments and assess the impacts and implications of short-term measures on long-term sustainability. It will also develop guidance for governments on designing and implementing exit strategies in the areas of financial markets, debt management, insurance, and private pensions markets.

30. **In the short term**, a strong focus area is to resolve the crisis in the **financial sector**, where large injections of public funds and prudent credit practices, market confidence has yet to be restored. The first priority is to deal with toxic assets in order to enable a sustainable recapitalisation and a timely end to the credit crunch. Closely related is the OECD effort on **tax havens**, which can also aggravate the impact of the crisis by encouraging opaque and destabilising shifts of regulatory risks. They also deprive treasuries and ordinary taxpayers – who bear the cost of immediate effort to shore up financial systems – of substantial future returns. These distortions undermine public perceptions of fairness, and ultimately public support for tax systems and crisis recovery programs funded through them.

- **Developing countries, already suffering from a thin domestic resources base, are often disproportionally affected by capital flight towards tax havens.**

31. The OECD's work to implement an **internationally agreed tax standard** has gained wide international support. All 84 jurisdictions surveyed by the OECD have now officially committed to this standard, although several of them have yet to implement it substantially. Implementation is key, since the crisis could be a new driver for corruption world-wide as opportunities for legitimate economic activity and enterprise decline and as those involved in corruption seek safe havens for illegally acquired assets.

32. **Open markets** are the key condition for emerging from crisis and accelerating recovery: governments must reject trade and investment protectionism, and move to conclude the Doha Round. As unemployment rises, the pressure to resort to protectionism will strengthen. Strong political determination will be required to defend. The **trade pledge** adopted by OECD countries in November 2008 underscores the critical importance of rejecting protectionism and not turning inwards in times of financial uncertainty.

33. In response to the impact of the economic crisis on partner countries and concerns that aid budgets might be under pressure at home, DAC Members collectively agreed in October 2008 to an **aid pledge** whereby they reaffirmed their aid commitments and agreed to maintain their aid flows in line with those commitments.

34. There is also a need to ensure that DAC Members will not tie or retie their aid, *e.g.* by restricting supply to national companies or via buy national provisions. Lessons from earlier DAC work are clear – tying has no measurable impact on Members' macroeconomic situation, yet substantially reduces the real value and purchasing power of their aid. Such moves would thus be incompatible with the aid pledge, which seeks to maintain the value of aid. And coming at a time when partner countries need all the help they can get to tackle severe financing gaps, such moves would be counterproductive to their efforts to resist a deepening poverty crisis. DAC members should therefore agree to **resist pressures from the economic crisis to tie aid** and, accordingly, not to retie aid that has already been untied or to tie any new aid programmes as this will increase aid's value for money.

G20 and related Action Plans

35. The OECD Strategic Response has already fed into key international events, in particular the G20 London Summit, the action plan of which also covered transparency, financial sector crisis resolution strategies, corporate governance, pensions, financial education and maintaining open markets for trade, investment and competition. In particular, the OECD tax standard was recognised and strongly supported by the G20 Summit meeting. The G20 call to improve the international regulatory environment could also provide entry points for donor countries to make faster progress in the field of anti money laundering, asset tracing, freezing and recovery, as they have committed to do in the Accra Agenda for Action.

36. The G20 Summit communiqué greatly enhances the crisis response role of the **international financial institutions**, in particular in terms of increased allocation of financial resources to these institutions. For IMF non-concessional operations up to an additional USD 750 billion will be made available. This will initially be financed by borrowing and bonds sales to members (at least USD 250 billion). At a second stage, the IMF will double these resources to incorporate the immediate financing from members into an expanded and more flexible New Arrangements to Borrow.[20] In addition, the G20 agreed to a one-time SDR allocation of USD 250 billion, which translates into USD 100 billion for emerging and developing economies, of which USD 19 billion is for the 78 low-income countries.

37. The G20 have also called for an increase of USD 100 billion in non-concessional lending by the Multilateral Development Banks (MDBs), including to eligible low-income countries, bringing the total to USD 300 billion over the next three years, and the IMF has reformed its lending and conditionality framework with its new Flexible Credit Line.

38. The further provision of USD 50 billion as agreed in the G20 communiqué to safeguard development in low-income countries includes a number of elements, including those specified in the box below.

Box 1. G20 - Elements of additional resources to low-income countries

Elements:	Indicative amount
One time SDR allocation	USD 19 billion
4th Amendment to the IMF Articles of Agreement (through a special onetime allocation of SDRs)	USD 2 billion
Additional, concessional, flexible finance from the IMF for the poorest countries over the next 2-3 years, financed in part by proceeds from agreed gold sales.	USD 6 billion
Additional MDB financing for the private sector in low-income countries	USD 6 billion
Support for the IFC Global Trade Liquidity Pool over the next three years	USD 12 billion

39. From the perspective of low-income countries, these resources will be subject to conditions of access, which will determine the size and speed of use. It is likely that only a minor share can be considered as ODA eligible (probably only a portion of the additional IMF concessional financing not financed by gold sales, part of the MDB financing, and part of the support for the IFC Global Trade Liquidity Pool can be classified as ODA).

40. At the same time, the G20 reaffirmed their respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments to Africa in support of the MDGs. The ODA commitments are now even more critical, and the G20 crisis solution should not merely mean a return to 2007 conditions by 2011 because of the intervening MDG losses.

41. **Key follow up milestones** to the G20 Summit on the international agenda include the UN High level meeting on the development impact of the crisis in June and the G8 summit in July, as well as the G20 follow up meeting and the UN General Assembly meeting in September. The Italian G8 Summit in July is also expected to give a coherent and substantial contribution to the global response to the financial and economic crisis.

42. The UN, working with other global institutions, is tasked with establishing an effective mechanism to monitor the commitments on financing for development reached at the Monterrey and Doha Conferences[21], and the impact of the crisis on the poorest and most vulnerable.

Governance of Financial Institutions

43. The World Bank's independent, high-level governance commission, created last October and headed by former Mexican president Ernesto Zedillo, will report back at the 2009 Annual Meetings. The First Phase reforms of already agreed by its Governors, including the creation of a new chair at the Bank's Board to strengthen the representation of Sub-Saharan Africa, is now under implementation. Phase Two reforms are expected to be agreed by the 2010 Spring Meetings. The IMF's governance commission, headed by South African finance minister Trevor Manuel, requires real action to implement the April 2008 agreements on quota and voice reform. In addition, the IMFC Communiqué indicates that the IMF would complete the next review of quotas by January 2011, and that heads and senior leadership of international financial institutions should be appointed through an open, transparent, and merit-based selection process. In the G20 communiqué, the Chairman of the G20, working with the G20 Finance Ministers, was tasked with leading a wide consultation through an inclusive process to report back at the next meeting with proposals for further reforms to improve the responsiveness of the IFIs.[22]

3. FINANCIAL INITIATIVES

44. Given the big risk the crisis poses with regards to current and future ODA flows,[23] there is a strong call to support the most vulnerable by providing safety nets and bolstering social protection where necessary, as reinforced at the High Level Consultation on the Financial Crisis and Global Health held earlier this year.[24]

Global response

45. In addition to the G20 global financial initiatives, the President of the World Bank has put forward the concept of an umbrella Vulnerability Fund to which developed countries could contribute 0.7% of their planned economic stimulus packages. Based on the total fiscal stimulus packages, this would yield USD 11-13 billion in additional finance in 2009. Resources from this proposed virtual fund would be channelled either through the World Bank, other MDBs and the UN. Priorities would be infrastructure, safety net programs, and financing for small and medium-sized businesses and microfinance institutions.

Aid performance and outlook

46. Crisis responses contain very little in the way of additional concessional resources for developing countries. In the very short term, it is critical for donors to meet their 2010 commitments to scale-up aid, or else jeopardise progress thus far achieved towards the MDGs.

Box 2. Recent Aid performance and insufficient forward intentions

Since 2004, total official development assistance (ODA) from members of the OECD's Development Assistance Committee (DAC) has been growing at an average annual rate of 6.1% (5.7% without Iraq and Afghanistan). In 2008, it reached its highest dollar figure ever recorded and movement in the right direction, it grew by 10% in real terms and represented 0.3% of members' combined gross national income (GNI).

Most members' ODA commitments are expressed as a share of their GNI. Given the fall and slow recovery in actual and expected GNI, and changes in some countries' commitments, meeting current 2010 commitments now requires maintaining the 2008 rate of annual increase in ODA for 2 more years. This is not much more than the average annual ODA increases implied by the Gleneagles commitments in 2005.

The DAC Survey on indicative forward spending plans, which is designed to reduce some of the uncertainties about future aid flows at the global, regional and national level, suggests that planned increases in programmed aid up to 2010 fall still short of this gap in ODA performance. At the global level, **at least another USD 14 billion** in current terms is needed by the end of next year, above what donors are planning and even before considering additional crisis response needs. Only renewed efforts would bring the global target within reach.

And for Africa, for which a separate goal (which was not fully linked to donor GNI) was announced at Gleneagles of additional USD 25 billion in 2004 terms, donors are lagging well behind the target. The Africa commitments implied annual increases in aid of 11%, but since 2004 aid to Africa has followed the same trend as the global trend, about half the required rate of increase. The planned allocations for the next three years to Africa appear to be increasing more slowly than to other regions, in particular Asia. The estimated remaining gap for **Africa**[25]**,** is higher by itself than this global gap: it is estimated at **USD 20 billion**. If donors maintain their overall spending plans, they may need to reallocate regionally towards Africa in order to meet their commitments.

47. The international community needs to address the impact of a synchronized contraction in donor GNI, followed by gradual recovery. This scenario lowers the value of aid consistent with any given ODA/GNI target that members may have adopted. It could be considered all too easy to maintain **technical**

commitments as a share of income, with a resulting cut in aid volumes, which reinforces pro-cyclical pressures on the poorest. Encouragingly, some countries have announced that they will maintain their aid volumes, with a resulting increase in the aid performance expressed in percentage of GNI, i.e. that they will behave counter-cyclically.

Individual donor and agency responses so far

48. The 2009 edition of DAC survey on donors' forward spending asked for donors' participation in individual and/or collective rapid response mechanisms to mitigate the adverse impact of the crisis. Most multilateral donors have taken initiatives to assist developing countries mitigating the impact of the crisis. For the DAC countries and regional development banks, Annex 2 provides an overview of their responses. It is, however, not always clear whether these are all directly linked to the economic crisis response (as against, for example, humanitarian action) or provided on concessional terms.

World Bank Group

49. The Bank expects to nearly triple IBRD lending in fiscal year 2009 from USD 13 billion to USD 35 billion, including through fast-disbursing development policy loans. In terms of concessional financing, the **IDA Financial Crisis Response Fast Track Facility**[26] will fast track up to USD 2 billion by expediting approval processes for money from the IDA 15 fund of USD 42 billion over three years for 78 IDA-eligible countries.

50. In response to the crisis, the World Bank has established the **Vulnerability Financing Facility** (VFF) to facilitate faster spending for the most vulnerable countries. The G20 has called for additional donor contributions to this fund. So far commitments of USD 900 million have been made, including the USD 200 million from IBRD. The VFF is composed of the following initiatives, all of which are financed through existing internal resources, except where mentioned:

c. **Global Food Crisis Response Program** with USD 1.2 billion of Bank-sourced funds, along with USD 200 million of Trust Funds, launched in May 2008. As of April 2009, USD 916 million was approved for 31 countries.

d. **Rapid Social Response Programme** is designed to support low- and middle-income countries' urgent social services and safety net programmes, and was proposed in March 2009. The UK has committed GBP 200 million to this Fund.

51. The **Infrastructure Recovery and Assets Platform** (INFRA) supports efforts to stabilise existing infrastructure assets, to ensure delivery of priority projects, to finance Public Private Partnerships and to support new infrastructure development by providing finance and advice to governments. The platform proposes direct IBRD and/or IDA funding of infrastructure projects of up to USD 15 billion per year. The IFC is contributing USD 300 million and is seeking additional contributions from governments and institutions. An important component of INFRA is the **Energy for the Poor Initiative** that expands energy access, helps the poor adjust to energy shocks, and reduces vulnerability to energy price volatility.

52. The IFC engagement with the private sector, especially with regards to trade financing is an important WBG initiative. Liquidity support is proposed through the creation of **Global Trade Liquidity Pool** to provide USD 40-50 billion of credits to support trade finance over the next three years, of which USD 6 billion have been committed, and the expansion of the **Global Trade Finance Programme** from USD 1 billion to USD 3 billion.

IMF

53. In light of the crisis, the IMF intends to step up its financial support to developing countries, and it has embarked on a comprehensive reform of its facilities for LICs to make its choice of lending instruments more flexible and responsive to their needs in the face of heightened global volatility. Access limits for all borrowers have been doubled, including **enhanced support for PRGF-countries**[27] through the doubling of its concessional resources and a modified **Exogenous Shocks Facility** (ESF) to provide assistance both to PRGF countries and countries without IMF programmes. The ESF is a concessional lending facility with a *rapid access* window, which allows a country to access 25% of its quota for each exogenous shock, and a *high access* window for up to 75% of quota, subject to periodic reviews. In December 2008, four countries accessed ESF financing, and so far in 2009 at least two countries have accessed these resources.[28]

54. The IMF has made its lending and conditionality framework more adaptable with the new **Flexible Credit Line** (FCL) and **high access precautionary arrangements**. In March 2009, the IMF launched the FCL, designed to provide large and upfront financing to members with very strong fundamentals and policies. As access to the FCL is restricted to those members that meet strict qualification criteria, drawings under it are not tied to policy goals agreed with the country (i.e. there is no *ex post* conditionality). The flexibility of the FCL relates to its uncapped access, its unrestricted renewals, and its dual-use for contingent (precautionary) and actual balance of payment needs.

55. It is not yet clear how the **USD 19 billion in SDRs** indicated in the G20 communiqué would be accessed by LICs. The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: (a) by arranging to voluntary exchanges between members; and (b) by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions.

European Commission

56. After the G20 summit, the **European Commission (EC)** issued a communication, subject to approval by the General Affairs and External Relations Council on 18 May, proposing that Member States must honour their individual and collective commitments to reach their ODA targets by 2010 and 2015 and proposing financing for the “Food Facility”; front-loading of budget support; an enhanced FLEX mechanism; and a commitment to aid effectiveness principles. Annex 2 and DCD/DAC/RD(2009)5/RD4 provide more details on these initiatives.

Regional Development Banks and Bilateral Donors

57. Regional development banks and bilateral donors have also responded positively in the face of the crisis. Details of their proposals can be found in Annex 2.

4 AN EFFECTIVE DONOR RESPONSE

58. The priority in crisis response is to provide short-term protection against the effects of the crisis, and to minimise the long-term harm it is doing to the prospects for developing countries. The speed and scale of donor response need to be ratcheted up if the worst impacts of the crisis on human welfare and on economic performance are to be minimised. The positive news is that donors have the experiences, tools, principles and commitments that can be capitalised to guide an effective response individually and collectively. In particular, the principles of aid effectiveness are fundamental to underpin the crisis response round partner country ownership, accountability and results and should be a cornerstone for DAC's response.

Coherent policy response

59. The crisis inherently calls for an integrated development response, reflecting its multiple channels of impact. The need to underpin **trade** flows and trade financing is clear, as is the use of aid in catalytic support for **private sector-led investment,** especially in infrastructure and microfinance.

60. Developing countries need support with providing social protection measures to build resilience to the recession and tackle the real economic hardships faced by poor people. Though obviously difficult when budgets are under pressure and fiscal space is limited, it is even more important now to create the conditions and incentives for pro-poor growth that will reduce poverty and build livelihoods robust enough to weather the storms of the global economic climate. Actions on **employment and social protection** are mutually reinforcing and promote pro-poor growth. Better and more productive jobs raise incomes, allow social spending by poor workers and help finance social protection. They also constitute critical and countercyclical element of developing countries' response to the current global economic recession. Measures in these areas will help protect the progress made over the last decade towards achieving MDG1 in the face of global recession and volatility in international markets. A combination of measures promoting social protection (*e.g.* cash transfers) and employment (*e.g.* workfare) will help protect the most vulnerable while also promoting longer term recovery. Monitoring impacts in informal labour market settings, involving large migration flows and transition not only to open unemployment, but also to lower-paid and precarious contracting and disguised unemployment, will not be easy.

61. The **food security** and nutritional impact of the crisis, especially avoiding irreversible potential damage to infant health, also needs to be fully integrated within national and international responses. This crisis challenge is superimposed on longstanding relative neglect of poor nutritional outcomes, even in some high-growth countries. Donors have responded with significant emergency relief but larger effort is needed to renew interest and investment in agriculture development and its contribution to poverty reduction. In the short term is essential for donors to address the following questions:

- What should donors be doing to shape a more collective and effective response to promote global food security?
- How can donors best support partner countries long term agricultural and food security strategies?

Thematic funds in response to new global challenges, advantages and challenges

62. It is likely that existing thematic funds will gain increased support and that urgent consideration will be given to creating new funds in the crisis response. While these and related thematic priorities need to remain high on the agenda, the process of organising much of the crisis response for low-income countries around "vertical" initiatives is not without problems. The advantage of such funds is that they focus the attention on specific interventions, thereby increasing the overall financial envelope for a given country or sector and contribute to achieving results.

63. On the other hand, they are not always aligned to the developmental priorities and systems that exist at country- or sector-level, and might increase transaction costs and contribute to even more fragmented aid architecture from the perspective of developing countries. Thus, donors are encouraged – along with the Accra commitments –to ensure that existing channels of aid delivery are used, and if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate co-ordination at country level.

Complementarity between ODA and Non-ODA flows

64. There is a wide array of financial instruments and sources that do not count towards ODA, or count toward it only in part, yet help deliver important development results. This includes: other official flows, including much non-DAC donor assistance (to non-qualifying countries, or on non-concessional terms); "innovative" finance involving public-private partnerships, bond market leverage, guarantees and advance market commitments; and voluntary contributions and philanthropy for development, often receiving significant indirect public support in the form of tax relief.

65. In addition, a number of areas of public spending for international assistance, which the general public would tend to associate with development, are not now counted as ODA, such as large elements of peacekeeping costs. Major further streams of finance and public spending will inevitably arise in the context of climate change adaptation and mitigation, including from innovative sources.

66. This diversified portfolio of sources, actors and instruments will make an important, even decisive, contribution to crisis response, recovery and sustainable growth. It will be essential to make the most of the possible synergies between ODA and non-ODA (or put more positively, 'ODA-Plus') flows, and to engage the actors behind the latter more consistently. That is useful both in its own right and to sustain public awareness of and support for ODA itself.

67. A priority for future DAC work should therefore be to **classify and benchmark** this landscape beyond ODA, at the same time aiming for greater understanding of ODA itself, and the complementarity between the two.

DAC oversight and coordination

68. The **three key risks** on which DAC oversight is needed are that:

a) new aid efforts merely displace old ones, when both are needed (i.e. there is **no additionality** overall);

b) there is **reduced alignment** to national priorities, in the otherwise valid effort to replicate solutions rapidly across countries; and

c) there is **increased fragmentation** of the development architecture, especially if such arrangements outlive the crisis itself.

69. Most DAC members are now contributing (see annex) or considering contributions to one or more of the thematic response facilities managed by the World Bank Group, the EC, the regional banks

and the UN system. Contributors, partners and host agencies are already consulting within the framework of each initiative.

- **An open issue** is whether this level of coordination is sufficient, or whether there is also need for a composite, periodic overview of all crisis response facilities and their progress? If so, how could it best be organised at least additional cost?

- **Existing or planned country level processes**, such as the IMF's PRGF reviews, Consultative Groups and Round Tables, and, at its invitation, the EC's Mid-Term Review process of EDF 10 allocations, and IDA-16 replenishment should be used as opportunities to compare needs and medium-term aid intentions.

Responses supportive of partner country ownership

Addressing excessive fragmentation and ensuring effective division of labour

70. Assuring effective coordination of donor efforts becomes even more essential when we cannot afford to waste resources and where there is pressure within individual agencies and entities to disburse rapidly.[29] In the crisis response, donors need to support partner countries' lead in reducing fragmentation and to follow best practices in division of labour, including the *International Good Practice Principles in In-Country Division of Labour*[30]. Along with the EC's *Code of Conduct on Division of Labour*, these principles should guide efforts to reduce fragmentation and enhance complementarities also applicable in the crisis response. In many countries, joint actions by agencies, using channels of multilateral agencies, provides a means of increasing flows in a coherent manner. However, there is a strong *prima facie* case for making multilateral pooling the **default option for streamlining the international development division of labour,** both during and after the crisis. There are other, complementary tracks that should be taken, notably rationalising bilateral in-country presence through delegated cooperation and other mechanisms, as foreseen in the AAA. Ensuring timely disbursement of existing aid commitments and effective delivery of emergency response

71. Ensuring timely disbursements of existing aid commitments at country-level is vital to fill the public expenditure gap in developing countries. In line with the Accra commitments, options need to be explored to increase the proportion of aid that is provided through programme-based approaches and also use country systems as a first option to streamline planning, budgeting and implementation processes.

72. Further, as donors and the international community gear up to frontload and disburse emergency assistance, the crisis response can be an opportunity to review rules and procedures to assure swift disbursement of assistance to where it is most needed. Lessons from emergency procedures – for example from response to natural disasters - can shed light on effective and accountable practices in disbursing assistance rapidly.

73. Given the shortage of additional concessional responses, major multilateral development agencies, operating within their existing multiyear envelopes, are also proposing various forms of "frontloading", or making the most rapid and focused use possible of what was already available before the crisis. This has many positive features. However, for partner countries there is no certainty that a faster drawdown of such funds today will not risk exhausting their limited country allocations tomorrow, so long as there is no overall agreement on earlier future replenishment. Acceleration might therefore expose them to greater vulnerability when their needs may be greater and alternative sources perhaps tighter, one to three years from now. In this way, there is a tension between the innovation and flexibility deployed in this phase of the crisis and the need for longer-term predictability. The IDA-16 and EDF mid-term reviews, both scheduled for the second half of this year will revisit this issue, and several DAC members have advocated for its early consideration at the political level.

Increasing medium-term predictability in the context of the crisis response

74. The crisis makes the predictability of aid in the short and medium term at the same time more important and more difficult: more important because without increased and predictable development assistance, there is a strong risk of destabilizing aid dependent countries who have limited options for securing any other financing sources; and more difficult because donors themselves are in fiscally uncertain times. Given the potential cost of aid volatility, donors should provide medium-term aid predictability – as in the commitments of the Accra Agenda for Action - and reconfirm the “aid pledge” by respecting existing aid promises and averting cuts in budgets for development aid despite the economic slowdown. Further, predictable aid can help partner countries increase the fiscal space and therefore build capacity to absorb more assistance in the longer-term.

ANNEX 1: ODA SIMULATION

OECD-DAC Secretariat simulation of DAC members' net ODA volumes in 2008 and 2010

In constant 2008 USD million

The data below are not forecasts, but Secretariat projections based on public announcements by member countries of the OECD's Development Assistance Committee (DAC). The key figures from such announcements are shown as "Assumptions". To calculate net ODA and ODA/GNI ratios requires projections for GNI for 2010. For 2009 and 2010, the projections of real growth are taken from the OECD Economics Department interim projections to be published on 31 March. Pending updated country specific figures which will be available in June 2009, country specific real growth projections are available and used for each G7 country, whereas Euro area or total OECD real growth projections are used for most other countries. While calculations have been discussed at technical level with national authorities, the DAC Secretariat is responsible for the methodology and the final published results.

	2008 (preliminary)		Assumptions (ODA/GNI ratios)	2010			
						Real change in ODA compared with 2008	
Country	Net ODA (2008 USDm)	ODA/GNI		Net ODA (2008 USDm)	ODA/GNI	(2008 USDm)	Per cent
Austria	1 681	0.42%	0.51% in 2010	1 945	0.51%	264	16%
Belgium	2 381	0.47%	0.7% in 2010	3 361	0.70%	980	41%
Denmark [1]	2 800	0.82%	Minimum 0.8%	2 623	0.80%	- 177	-6%
Finland	1 139	0.43%	0.51% in 2010	1 300	0.51%	161	14%
France	10 957	0.39%	0.51% in 2010 and 0.7% in 2015	13 909	0.51%	2 952	27%
Germany	13 910	0.38%	0.51% in 2010	17 687	0.51%	3 777	27%
Greece [2]	693	0.20%	0.35% in 2010	1 145	0.35%	452	65%
Ireland	1 325	0.58%	0.6% in 2010 and 0.7% in 2012	1 307	0.60%	- 17	-1%
Italy [3]	4 444	0.20%	0.51% in 2010	10 866	0.51%	6 423	145%
Luxembourg	409	0.92%	0.93% in 2010 and 1% in following years	395	0.93%	- 14	-3%
Netherlands	6 993	0.80%	Minimum 0.8%	6 647	0.80%	- 346	-5%
Portugal	614	0.27%	0.51% in 2010	1 119	0.51%	505	82%
Spain	6 686	0.43%	0.56% in 2010 and 0.7% in 2012	8 271	0.56%	1 585	24%
Sweden	4 730	0.98%	1%	4 625	1.00%	- 105	-2%
United Kingdom [4]	11 409	0.43%	0.56% in 2010-11 and 0.7% in 2013	14 243	0.56%	2 834	25%
DAC EU members, total	**70 168**	**0.42%**		**89 441**	**0.56%**	**19 273**	**27%**
Australia [5]	3 166	0.34%	See footnote 5	3 266	0.37%	100	3%
Canada [6]	4 725	0.32%	See footnote 6	4 875	0.34%	150	3%
Japan [7]	9 362	0.18%	See footnote 7	13 310	0.28%	3 948	42%
New Zealand [8]	346	0.30%	See footnote 8	415	0.35%	69	20%
Norway	3 967	0.88%	1% over 2006-09	4 295	1.00%	327	8%
Switzerland [9]	2 016	0.41%	See footnote 9	1 862	0.40%	- 154	-8%
United States [10]	26 008	0.18%	See footnote 10	27 647	0.20%	1 639	6%
DAC members, total	**119 759**	**0.30%**		**145 110**	**0.39%**	**25 351**	**21%**

[1] Over the coming years, the Danish government will strive to increase ODA as a percent of GNI from the current level of 0.8%.

[2] Due to budgetary constraints, Greece has deferred its EU ODA target of 0.51% to 2012. Greece estimates it will reach an ODA/GNI ratio of 0.35% in 2010.

[3] The Italian authorities advise that Italy's ODA trend will be influenced by the constraints on Italy's public finance.

[4] This Secretariat simulation of 2010 ODA applies its previous estimate of the ODA/GNI ratio in 2010 (0.56%) to its current projections of UK GNI in 2010, expressed at 2008 prices and exchange rates.

[5] Australia expects to continue increasing its ODA. Australia has announced it intends to reach an ODA/GNI target of 0.5% by 2015-16 and in 2008 the Australian Government announced interim targets of 0.35% in 2009-10, 0.37% in 2010-11 and 0.38% in 2011-12. The figure here is discounted for inflation.

[6] Canada intends to double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms. The Canadian authorities estimate ODA (composed in large part from the IAE) will be 5.1 billion Canadian dollars in 2010. The ODA figure shown here is adjusted for inflation and converted to USD at the 2008 exchange rate.

[7] Japan intends to increase its ODA by USD 10 billion in aggregate over the five years 2005-2009 compared to 2004. The Secretariat's estimate assumes USD 4.39 billion extra in 2009, compared to 2004, and uses this figure for 2010, supposing that the volume of net ODA in 2009 will be maintained. No adjustment is made for inflation.

[8] New Zealand has indicated an intermediate target of NZD 600 million. The Secretariat estimates an ODA/GNI ratio of 0.35% in 2010.

[9] The Swiss Parliament (the Council of States in September 2008 and the National Council in December 2008) has decided to increase ODA to 0.5% of GNI by 2015. The provision of additional resources to meet this objective will be decided after the approval of the additional frame credit in 2009. In the actual financial plan, the ODA/GNI ratio of 0.40% will be maintained from 2009 onwards.

[10] The United States does not issue or approve forecasts on projected ODA. The amount shown here is purely a Secretariat estimate. It is based on 2004 ODA plus USD 5 billion nominal per annum to cover the Gleneagles G8 commitments on increased aid to sub-Saharan Africa, Millennium Challenge Account, and initiatives on HIV/AIDS, malaria and humanitarian aid.

ANNEX 2: INDIVIDUAL DONOR RESPONSES

(PROVIDED BY DAC MEMBERS AND OBSERVERS)

Regional Development Banks

75. Other **multilateral and regional development banks (MDBs)** are likely to play an important role in the call for increased trade finance. MDBs, including the World Bank VFF, have indicated they will front-load resources as much as possible for their low-income country clients. The potential recapitalisation of MDBs was referenced by the G20, but so far is only specific in the case of the **Asian Development Bank** (AsDB), which will receive a 200 percent general capital increase. The Asian Development Fund will frontload USD 3.4 billion to ADF recipient countries in 2009. The **African Development Bank** (AfDB) approved the Emergency Liquidity Facility (ELF) in March 2009. The ELF plans to disburse USD 1.5 billion in non-concessional financing in 2009 and 2010. AfDB will support low-income borrowers of AfDF concessional resources to finance budget deficits, and accelerate currently available concessional resources. The **Inter-American Development Bank** (IADB) is providing liquidity financing of up to USD 500 million per country to offset shortfalls in normal credit (non-concessional) flows to Latin America and the Caribbean as part of the “Liquidity Program for Growth Sustainability.” The **European Bank for Reconstruction and Development** (EBRD) will provide up to EUR 6 billion (non-concessional) for the financial sector in 2009-10 in the form of equity and debt finance to banks and directly to SMEs.

European Commission

76. After the G20 summit, the European Commission (EC) issued a communication, subject to approval by the General Affairs and External Relations Council (GAERC) on 18 May, proposing:

1. Members States **honour their individual and collective commitments** to reach their ODA targets by 2010 and 2015;

2. EUR 314 million package of projects to support agriculture and improve the food security situation in 23 developing countries as part of the EUR 1 billion **“Food Facility”** adopted at the end of last year;

3. Commitment to **frontload EUR 3 billion in budget support** (72% of the total amount of expected budget support for ACP countries) to safeguard social expenses.

4. In addition to the existing FLEX mechanism, the Commission also proposes a **Vulnerability FLEX mechanism** to safeguard social expenses in ACP countries affected by terms of trade shocks and other vulnerability criteria. This mechanism will be operational before the end of 2009 with an overall financing envelope of least EUR 500 million from the 10th EDF.

5. According to a study commissioned by the EC, **applying aid effectiveness principles** could free up EUR 3-7 billion in the EC budget each year.

Bilaterals

77. The 2009 edition of DAC survey on donors' forward spending asked for donors' participation in individual and/or collective rapid response mechanisms to mitigate the adverse impact of the crisis. The survey returns indicated a number of bilateral initiatives, although it is not always clear whether these are all directly linked to the crisis response or provided on concessional terms. The table below presents information as reported to the Secretariat by DAC members, and in many cases it is objectively difficult to distinguish financial and economic crisis responses from business-as-usual.

Bilateral donor	Initiatives	Proposal/Approved
Australia	AusAID has reviewed existing programs to ensure both timely monitoring of economic and social impacts and the capacity for quick response to emerging needs, especially in the Asia-Pacific region. Existing AusAID programs will be re-prioritised to support priority needs or vulnerable groups emerging as a result of the crisis. Support for urgent developing country partner requests will also be considered as required.	Proposal
Austria	Austria has approved EUR 28 million (USD 37.4 million) for disbursement in 2009 to the IFC in response to the crisis. EUR 8 million (USD 10.7 million) of this is concessional in the form of grants to the IFC advisory facility (EUR 5 million or USD 6.7 million) and the IFC Microfinance Enhancement Facility (EUR 3 million or USD 4 million). The remaining EUR 20 million (USD 26.8 million) is a non-concessional loan to the IFC Microfinance Enhancement Facility.	
Canada	CIDA is seeking CAD 100 million (USD 85.million) additional financing to permit the agency to respond quickly and effectively to the effects of the economic crisis	Proposal
Denmark	Denmark is committed to delivering its ODA target of at least 0.8% of GNI. In 2009, Denmark plans to provide 0.82% of GNI in ODA. Denmark is committed to a poverty oriented policy response to the crisis, and is currently investigating the vulnerability of partner countries to the crisis in order to ensure an effective Danish policy response. However, none of the concrete initiatives will be additional to the 0.82% of GNI. At the same time, Denmark encourages DAC members to maintain their ODA commitments. Multilateral development banks and other multilateral organizations should frontload their assistance to ensure available resources. The Africa Commission established in 2008 by the Danish government proposes an African Guarantee Facility in partnership with the African Development Bank to foster growth of financial resources available for SMEs and for capacity development of financial institutions. The guarantee facility will be supplemented by a facility for capacity development of SMEs. These facilities will be implemented over the coming year and will enable the availability of funds for SMEs.	

Bilateral donor	Initiatives	Proposal/Approved
France	In 2008, France announced that it would double its aid in response to the food crisis. In addition, France will provide USD 1.5 billion to agriculture and rural development in sub-Saharan Africa. French programmed food aid has responded to a number of crises, principally in Sudan and the Sahel region of Africa, Central Africa, the Horn of Africa, Afghanistan, Palestinian Autonomous Territories (PAT) and Haiti. The French government has more than doubled its food aid in 2008 to reach EUR 67 million (USD 89.4 million), relative to EUR 32 million (USD 42.7 million) relative to 2007. France has assured the protection of food aid delivery, particularly in mobilizing its national navy in Somalia. This mobilization was then taken over by other military powers (Netherlands, UK) in 2008.	
Germany	In February 2009, Germany contributed USD 130 million to the Microfinance Enhancement Facility, created by the IFC, and expected to provide up to USD 500 million to more than 100 institutions in 40 countries.	Approved
Italy	1. To assist affected population in Palestinian Autonomous Territories: -- EUR 300,000 (USD 401,000) grant to IFRC -- EUR 750,000 (USD 1 million) grant to WHO -- EUR 1.6 million (USD 2.1 million) grant to UNRWA + EUR 150,000 (USD 200,400) for delivery of items through UNRWA 2. EUR 22,000 (USD 29,400) to the IFRC to assist population affected by earthquake in January 3. EUR 250,000 (USD 334,000) to WHO to assist affected population in Sri Lanka 4. EUR 500,000 (USD 667,000) to strengthen the response capacity of ICRC –for the Emergency Preparedness and Response 5. EUR 136,000 (USD 181,900) to WHO to assist affected population in Bolivia - outbreak of Dengue 6. EUR 300,000 (USD 400,800) to FAO for emergency assistance to mitigate the effects of soaring food prices by improving the production capacities of associations of vulnerable households in Burundi 7. EUR 20 million (USD 26.7 million) for Afghanistan's National Solidarity Programme 8. EUR 40 million (USD 53.4 million) to Pakistan for microcredit.	1.Approved; Approved; Approved 2. Approved 3. Approved 4. Approved 5. Approved 6. Approved 7. Approved 8. Proposed
Japan	1. Japan has incorporated funding of JPY 7 billion (USD 71 million) as emergency assistance to Asia; 2. Japan will provide up to JPY 2 trillion (USD 20 billion) to Asia as "the center of growth open to the world". 3. Japan will provide a loan of a maximum of USD 100 billion to IMF	1. Proposal/Approved 2. Proposal/Approved 3. Approved
New Zealand	New Zealand will look to areas of work that will leave Pacific island countries better placed to take advantage of the global recovery including by (1) strengthening country ownership over development; (2) building more effective and inclusive partnerships with private sector to provide business support and training as well as better access to information for export markets; (3) coordination efforts at bilateral and regional level with Australia; and (4) focus on activities to deliver results in medium-term.	

Bilateral donor	Initiatives	Proposal/Approved
Norway	1. An increase of NOK 150 million (USD 23 million) in non-concessional terms in GIEK's primary capital fund, in order to increase GIEK's developing country scheme to NOK 1 billion (USD 153.2 million). GIEK is the central Norwegian governmental agency responsible for furnishing guarantees and insurance of export credits. 2. Norway has offered a NOK 30 billion (USD 4.6 billion) loan to the IMF. 3. An additional NOK 100 million (USD 15.3 million) in concessional resources was allocated to NORFUND, and, earmarked for clean energy infrastructure projects in developing countries.	1. Approved 2. Proposed (and acknowledged by the IMF) 3. Approved
Switzerland	Switzerland plans to be consistent with its commitments made in Monterrey. Moreover, the Swiss parliament has requested a report on options for accelerating the pace of ODA increase over the coming years. In addition, Switzerland will try to dynamically respond to possible partner countries initiatives towards reorienting programs and development priorities in response to the crisis, and emphasize strengthening the quality of the regulations of the global governance system and the role of IFIs in ensuring the macroeconomic stability. Switzerland's more long-term response initiatives to the financial crisis can be summarized in three major areas: **1. Financial Sector Stability**: Switzerland will provide USD 3 million grant to the Global Secured Lending Program of the Foreign Investment Advisory Service (FIAS) in 2008-11 to assist governments in reforming their business environments, with emphasis on regulatory simplification and investment generation. Support also includes funds for a proposed USD 5 million grant to the IMF trust funds on global anti-money laundering (AML) and counter-terrorist financing (CTF). Switzerland will also provide grants to funds such as SIFEM (USD 8.5 million in 2009-15), Triodos (EUR 3 million or USD 4 million in 2009-12), European Financial Partners (EUR 5 million or USD 6.7 million in 2009-12), and GuarantCo (USD 9.5 million in 2009-15). It will provide € 2.7 million (USD 3.6 million) to Serbia to support the deposit insurance agency from 2009-11. From 2009-11, Switzerland will provide USD 3 million to the Extractive Industries Transparency Initiative (EITI). **2. Trade and SME Financing** - A proposal of USD 5 million grant to IFC's global trade finance program for 2009-11. CHF 8.5 million (USD 7.5 million) in grants to UNCTAD to Fostering Competition Policies and Law in Latin America. Switzerland also supports the enlargement of GSP to include agro- and agro-processed products from developing countries. **3. Infrastructure and Public Budget Financing**, which includes approved bilateral support (including CHF 27 million – USD 24 million – in general budget support to Ghana for 2009-11) to partner countries as well as proposed CHF 13.5 million (USD 12 million) from 2009-12 for the PPIAF (Public-Private Infrastructure Advisory Facility), a multidonor technical assistance facility created to help governments in developing countries improve the quality of infrastructure through	

Bilateral donor	Initiatives	Proposal/Approved
	partnerships with the private sector.	
United States	The US proposes the establishment of Points of Contact in partner countries to coordinate donor responses to partner country needs in the context of the current crisis. The Department of Treasury is leading an Interagency Policy Committee (IPC) to address the financial crisis. USAID is using three criteria used to judge the degree of vulnerability to the current economic crisis (Economic Contagion Tracker): 1. Exposure to the international financial system 2. Dependence on international trade and remittances 3. weak and declining macroeconomic conditions Projects: 1. USD 1.445 billion programmed for Emergency Food Assistance 2. USD 65 million programmed (of USD 95 million total) for Emergency Local and Regional Procurement 3. Guidelines, criteria, and M&E established Regional Bureau management team created. 4. USD 70 million programmed (up to USD 100 million expected) for Emergency Programming to Mitigate Increased Food Insecurity 5. USD 135 million for interventions to increase productivity and trade in West Africa. 6. USD 44.8 million programmed for interventions to increase food security and strengthen staple food markets to support local and regional procurement in East Africa. 7. Focus is intra-regional trade in staple foods, livestock and livestock products to facilitate access to markets by smallholder farmers and livestock producers, and enhance their ability to benefit from local and regional purchase of food aid. 8. USD 40 million for Research and Development to increase productivity and affordability of food staples. 9. Funding to support CGIAR's long-term research and for bioengineered crops for Africa. 10. The US Treasury's Office of Technical Assistance has created flexible and rapidly deployable teams of advisers to assist with short-term problems resulting from the international financial crisis and to pave the way for and facilitate IMF programs.	

END NOTES

1. World Bank estimate.

2 World Economic Outlook, April 2009, available online: http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm

3 Ibid.

4 Andrew Mold, Sebastian Paulo and Annalisa Prizzon, "Taking Stock of the Credit Crunch: Implications for Development Finance and Global Governance," 30 March 2009, OECD Development Centre Working Paper 277.

5 Secretariat calculations based on World Bank numbers on 2008 remittance flows.

6 Institute of International Finance (2009), "Capital Flows to Emerging Market Economies", Washington, D.C., January.

7 Development Co-operation Report (2009) OECD Journal on Development, 10:1, page 207.

8 Sarah Cook and Jing Gu (March 2009), "China and the Global Financial Crisis", In Focus Policy Briefing, IDS.

9 Sources: D. Brautigam, "China's African Aid" (2008), available at www.gmfus.org/doc/Brautigam0410aFINAL.pdf; G.D. Rawnsley, A Survey of China's Public Diplomacy, available at http://uscpublicdiplomacy.com/index.php/newsroom/pdblog_detail/070502_a_survey_of_chinas_public_diplomacy/

10 Ibid.

11 Sarah Cook and Jing Gu, "China and the Global Financial Crisis: Implications for Low-income countries," IDS In Focus Policy Briefing, Issue 7.6, March 2009.

12 Presentation "Managing the real-side crisis in developing countries" by Justin Lin, Senior vice president and chief economist, world bank, April 26, 2009

13 Update to the Development Committee on Key Issues and World Bank Group Activities" 16 April 2009, DC 2009-0003. Available at: http://siteresources.worldbank.org/DEVCOMMINT/Documentation/22148564/DC2009-0003(E)PresNote.pdf

14 Presentation by Marijn Verhoeven, Lead Economist, PRMPS at the ECSPE Growth and Equity Practice Group Roundtable, March 24, 2009.

15 IMF estimates from: The Implications of the Global Financial Crisis for Low-Income Countries, IMF, March 2009, available online: http://www.imf.org/external/np/exr/key/lic.htm. World Bank estimates from Swimming Against the Tide: How Developing Countries are Coping with the Global Crisis, World Bank, March 2009, available online: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/03/19/000333038_20090319022115/Rendered/PDF/477800WP0swimm10Box338866B01PUBLIC1.pdf

16 The IMF plans to update its assessment of financing needs in coming weeks. Meanwhile, the estimate of 22 countries is considered simply indicative.

17 The estimate is for LICs whose reserve coverage was projected to fall below 3 months of imports or by more than 0.5 months to less than 4 months.

18 Louise Cord, Marijn Verhoeven, Camilla Blomquist and Bob Rijkers, (2009) "The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens", World Bank Policy Note, PREM.

19 http://www.oecd.org/dataoecd/33/57/42061463.pdf

20 These arrangements were most recently renewed in November 2007 for a period of five years from November 2008. See http://www.imf.org/external/np/exr/facts/gabnab.htm for more information

21 "Coherence, coordination and co-operation in the context of the implementation of the Monterrey Consensus and the Doha Declaration on Financing for Development" Note by the UN Secretary-General, 20 April 2009, E/2009/48.

22 See paragraph 20 of G20 Communiqué (London Summit – Leader's Statement, 2 April 2009) Available at: http://www.g20.org/Documents/g20_communique_020409.pdf

23 There is strong evidence on the pro-cyclical effect of crises on aid flows (e.g. Finland's aid fell 62 percent during its economic crisis in the early 1990s), although some contradictory evidence also exists. See (1) Ales Bulíř and Hamann (2008), "Aid Volatility: An Empirical Assessment," IMF Staff Paper, (2) Stéphane Pallage and Robe (2003) "Leland and Pyle meet Foreign Aid? Adverse selection and the Procyclicality of Financial Flows" CIRPEE Working Paper and (3) S. Bertoli, A.G. Cornia and F. Maranesi (2008), "Aid Effort and Its Determinants – A Comparison of the Italian Performance with other OECD Donors", Dipartimento di Scienze Economiche Università degli Studi di Firenze, Working Paper No. 11, Florence, September.

24 World Health Organisation, "The High Level Consultation on the Financial and Economic Crisis and Global Health – The Financial Crisis and Global Health", WHO Information Note, 16 January 2009.

25 Preliminary Secretariat estimate.

26 In February 2009, the Bank approved USD 35 million for Armenia and USD 100 million for the Democratic Republic of Congo.

27 As of August 2008, 78 low-income countries are eligible for PRGF assistance. Loans have a concessional interest rate of 0.5%.

28 ESF loans are granted at equivalent terms to PRGF loans.

29 Preliminary calculations by the EC show that the cost or failure to apply the full aid effectiveness agenda could range from EURO 25 to EURO 35 billion until 2015, or EURO 5 to EURO 7 billion a year, if the level of EU donors' net bilateral assistance remains stable. "Supporting developing countries in coping with the crisis" (COM(2009)160 final)

30 Approved by the Working Party on Aid Effectiveness in April 2009, the good practice principles [DCD/DAC(2009)5] are to follow practices that : 1) Rationalize Aid; 2) Partner Country Leadership; 3) Optimal Use of Development Resources; 4) Flexibility and Pragmatism; 5) Capacity Development; 6) Neutral Impact on Aid Volume; 7) Monitoring and Evaluation; and 8) Communication