Annex: Forecast, Tools, and Data

BOX 4A.1 MAMS: A tool for country-level analysis of development strategies

MAMS (Maquette for MDG Simulations) is an economywide simulation model developed at the World Bank to analyze development strategies. The model integrates a dynamic recursive computable general equilibrium model with an additional module that links specific MDG or poverty-related interventions to progress on poverty and other MDGs. This link is made possible by a disaggregation of government activities into functions related to MDG services (education, health, and water and sanitation) and infrastructure as well as a residual for other government activity. The government finances its activities from domestic taxes, domestic borrowing, and foreign aid (borrowing and grants). The private sector disaggregation varies between applications; where private provision of MDG services is important, such services are included, complementing the contribution of government services to MDG progress. The factors of production in the model typically include three types of labor, each of which is linked to an education cycle: those with incomplete secondary education (unskilled), those with completed secondary education but incomplete tertiary (semi-skilled), and those with completed tertiary (skilled). The labor force variable depends on the functioning of the education system in the model. The other factors of production include public capital stocks by government activity and a private capital stock. Growth in the stock of government infrastructure capital contributes to overall growth by adding to the productivity of other production activities.

MAMS covers MDGs in the areas of poverty, education, health, and water and sanitation. For poverty, a log-normal distribution is assumed; other applications have used microsimulations. For other MDGs, a set of functions links the level of each indicator to a set of determinants. The determinants include the delivery of relevant services and other indicators, also allowing for the recognition that achievements in one MDG can have an impact on other MDGs. Other than education, service delivery for other MDGs is expressed relative to the size of the population. In education, students successfully complete their grade, repeat it, or drop out of their cycle. Student performance depends on educational quality (quantity of services per student), household welfare, public infrastructure, wage incentives, and health status.

A MAMS country database is a synthesis of information from a variety of sources, structured to meet the requirements of the model. The model parameters are defined using this data. The main components of the database are a social accounting matrix and other data that reflect the functioning of the economy, with some emphasis on human development and infrastructure. More specifically, the information is primarily related to stock data (for labor and other production factors, students, and population) and elasticities (related to substitutability in production, consumption, and trade as well as to responses in MDG indicators to various determinants). For the simulations, it is also necessary to provide assumptions about the evolution of policies and other factors that are exogenous to the model.

The government policies that may be considered include spending—its level and allocation across different areas, including education, health, and infrastructure—and financing—policies for taxation, domestic and foreign borrowing, and foreign aid. Economic performance is measured by the evolution of:

- poverty and other MDG targets
- macro-indicators, including GDP (split into private and government consumption and investment, exports, and imports); the composition of the government budget, the balance of payments, and the savings-investment balance; total factor productivity; and domestic and foreign debt stocks
- sectoral structure of production, employment, incomes, and trade
- the labor market, including unemployment and the educational composition of the labor force

Note: For more information about MAMS, see www.worldbank.org/mams.

TABLE 4A.1 Alternate scenarios for poverty reduction, based on a poverty line of $1.25 a day, by region

Scenario	Region or country	1990	2005	2015	2020	1990	2005	2015	2020
Postcrisis		Percentage of the population living on less than $1.25 a day				Number of people living on less than $1.25 a day (millions)			
	East Asia and Pacific	54.7	16.8	5.9	4.0	873	317	120	83
	China	60.2	15.9	5.1	4.0	683	208	70	56
	Europe and Central Asia	2.0	3.7	1.7	1.2	9	16	7	5
	Latin America and the Caribbean	11.3	8.2	5.0	4.3	50	45	30	27
	Middle East and North Africa	4.3	3.6	1.8	1.5	10	11	6	6
	South Asia	51.7	40.3	22.8	19.4	579	595	388	352
	India	51.3	41.6	23.6	20.3	435	456	295	268
	Sub-Saharan Africa	57.6	50.9	38.0	32.8	296	387	366	352
	Total	41.7	25.2	15.0	12.8	1,817	1,371	918	826
Precrisis		Percentage of the population living on less than $1.25 (2005 PPP) a day				Number of people living on less than $1.25 (2005 PPP) a day (millions)			
	East Asia and Pacific	54.7	16.8	5.5	3.5	873	317	111	73
	China	60.2	15.9	5.0	3.9	683	208	69	55
	Europe and Central Asia	2.0	3.7	1.5	1.1	9	16	7	5
	Latin America and the Caribbean	11.3	8.2	4.6	3.9	50	45	28	25
	Middle East and North Africa	4.3	3.6	1.7	1.4	10	11	6	6
	South Asia	51.7	40.3	21.5	17.9	579	595	367	326
	India	51.3	41.6	22.7	19.6	435	456	283	259
	Sub-Saharan Africa	57.6	50.9	35.9	29.9	296	387	346	321
	Total	41.7	25.2	14.1	11.7	1,817	1,371	865	755
Low-growth		Percentage of the population living on less than $1.25 (2005 PPP) a day				Number of people living on less than $1.25 (2005 PPP) a day (millions)			
	East Asia and Pacific	54.7	16.8	7.8	5.8	873	317	159	122
	China	60.2	15.9	6.0	4.7	683	208	82	67
	Europe and Central Asia	2.0	3.7	2.5	2.2	9	16	11	10
	Latin America and the Caribbean	11.3	8.2	6.5	5.7	50	45	39	36
	Middle East and North Africa	4.3	3.6	3.3	2.7	10	11	12	11
	South Asia	51.7	40.3	28.6	24.6	579	595	489	447
	India	51.3	41.6	29.4	25.2	435	456	367	333
	Sub-Saharan Africa	57.6	50.9	43.8	39.9	296	387	421	428
	Total	41.7	25.2	18.5	16.3	1,817	1,371	1,132	1,053

Source: World Bank staff calculations, using PovcalNet.

TABLE 4A.2 Alternate scenarios for poverty reduction, based on a poverty line of $2.00 a day, by region

Scenario	Region or country	1990	2005	2015	2020	1990	2005	2015	2020
Postcrisis		**Percentage of the population living on less than $2.00 a day**				**Number of people living on less than $2.00 a day (millions)**			
	East Asia and Pacific	79.8	38.7	19.4	14.3	1,274	730	394	299
	China	84.6	36.3	16.0	12.0	961	473	220	168
	Europe and Central Asia	6.9	8.9	5.0	4.1	32	39	22	18
	Latin America and the Caribbean	19.7	16.6	11.1	9.7	86	91	67	62
	Middle East and North Africa	19.7	16.9	8.3	6.6	44	52	30	26
	South Asia	82.7	73.9	57.0	51.0	926	1,091	973	926
	India	82.6	75.6	58.3	51.9	702	828	728	686
	Sub-Saharan Africa	76.2	73.0	59.6	55.4	391	555	574	595
	Total	63.2	47.0	33.7	29.8	2,754	2,557	2,060	1,926
Precrisis		**Percentage of the population living on less than $2.00 (2005 PPP) a day**				**Number of people living on less than $2.00 (2005 PPP) a day (millions)**			
	East Asia and Pacific	79.8	38.7	18.6	13.4	1,274	730	379	280
	China	84.6	36.3	15.7	11.8	961	473	216	166
	Europe and Central Asia	6.9	8.9	4.5	3.7	32	39	20	16
	Latin America and the Caribbean	19.7	16.6	10.3	8.8	86	91	62	56
	Middle East and North Africa	19.7	16.9	8.0	6.1	44	52	29	24
	South Asia	82.7	73.9	55.5	49.0	926	1,091	946	890
	India	82.6	75.6	57.2	50.9	702	828	715	674
	Sub-Saharan Africa	76.2	73.0	57.6	52.4	391	555	555	563
	Total	63.2	47.0	32.6	28.4	2,754	2,557	1,991	1,830
Low-growth		**Percentage of the population living on less than $2.00 (2005 PPP) a day**				**Number of people living on less than $2.00 (2005 PPP) a day (millions)**			
	East Asia and Pacific	79.8	38.7	22.2	18.1	1,274	730	451	379
	China	84.6	36.3	16.9	13.6	961	473	233	191
	Europe and Central Asia	6.9	8.9	7.1	6.2	32	39	31	27
	Latin America and the Caribbean	19.7	16.6	14.5	12.9	86	91	88	82
	Middle East and North Africa	19.7	16.9	14.1	11.4	44	52	52	45
	South Asia	82.7	73.9	63.9	57.8	926	1,091	1,089	1,049
	India	82.6	75.6	64.6	57.9	702	828	808	766
	Sub-Saharan Africa	76.2	73.0	65.1	62.5	391	555	627	671
	Total	63.2	47.0	38.2	34.9	2,754	2,557	2,338	2,254

Source: World Bank staff calculations, using PovcalNet.

TABLE 4A.3 Detailed data for archetypes
Median values by archetype, selected variables

Variable	Low-income, resource-poor (LIRP)	Low-income, resource-rich (LIRR)
Poverty headcount ratio at $1.25 a day (% of population)	49.6	61.8
Poverty headcount ratio at $2.00 a day (% of population)	76.7	80.5
Elasticity of poverty to income	–1.01	–1.01
Poverty headcount ratio at national poverty line (% of population)	44.2	45.4
Primary school completion rate, total (% gross)	55.8	59.9
Primary school enrollment (% gross)	95.9	95.2
Secondary school enrollment (% gross)	31.6	35.5
Tertiary school enrollment (% gross)	3.2	4.7
Under-five mortality rate (per 1,000)	115.2	141.6
Maternal mortality ratio, modeled estimate (per 100,000 live births)	720.0	825.0
Maternal mortality ratio, national estimate (per 100,000 live births)	478.0	613.0
Improved water source (% of population with access)	65.0	60.0
Improved sanitation facilities (% of population with access)	30.0	31.5
Foreign direct investment, net inflows (% of GDP)	2.7	6.5
Foreign direct investment, net outflows (% of GDP)	0.0	0.0
Foreign direct investment inflow outflows (% of GDP)	2.7	6.5
Net current transfers, remittances (% of GDP)	8.9	4.5
Official current transfers, receipts, foreign aid (% of GDP)	2.5	1.7
External debt stocks (% GNI)	29.9	49.5
External debt stocks private (% GNI)	0.0	0.0
External debt stocks public (% GNI)	29.9	49.5
External debt stocks public, median (% GDP)	28.0	48.6
Gross fixed capital formation (% of GDP)	20.8	18.3
Gross fixed capital formation, private (% of GDP)	10.7	11.3
Labor force participation rate (% of total population ages 15–64)	74.3	71.4
Resource exports (% of GDP)	0.4	19.0
Resource exports (% of merchandise exports)	3.4	67.9
Mining value added (% of GDP)	0.7	3.3
Interest payment on private external debt (% of GDP)	0.0	0.0
Interest payment on public external debt (% of GDP)	0.3	0.5

Source: World Bank 2009b.

Notes

1. Resource intensity is an important factor in the performance of low-income countries and has been used to classify developing countries in several studies; see Collier and O'Connell (2006); IMF (2006); Ndulu and others (2007); and Arbache, Go, and Page (2008).
2. World Bank 2004b.
3. Even short-term assessments are necessarily projections because of the infrequency of the underlying data. Household surveys of incomes and expenditures are generally undertaken only every five or more years in many developing countries.
4. The estimation uses a logistic function, similar to Clemens, Kenny, and Moss (2007) but with per capita income as a key determinant instead of a time trend. Income rather than social spending is used as the independent variable because of data and other difficulties with fiscal adjustment and public expenditures. The logistic curve was used for the projections because it has a smoother transition across income levels, although the elasticity form (double-log regressions) by income level or region yielded similar results.
5. World Bank PovcalNet database.
6. See also IMF (2010); World Bank (2010b).
7. World Bank 2003, p. 41. These calculations update estimates found in Ravallion (2009) and World Bank (2009a).
8. Tiwari and Zaman 2010; World Bank 2010a.
9. Friedman and Schady 2009.
10. The low-income countries are disaggregated into resource rich and resource poor using data on exports of fuel ore and minerals as a share of merchandise exports. See table 4A.3 in the annex for more details.
11. See Bourguignon, Diaz-Bonilla, and Lofgren (2008) and Lofgren and Diaz-Bonilla (2010) as well as www.worldbank.org/mams.
12. The growth rate is set at 3 percent, the assumed annual GDP growth in developed countries from 2010 onward.
13. This is 15 percent higher than the annual GDP growth in the pessimistic scenario with internal adjustment (low-aid internal 1 case).
14. The primary gross completion rate (MDG 2) is defined as the total number of primary school graduates (regardless of age) as a share of the total population of the theoretical graduation age. If MDG 2 were measured by the net completion rate (the number of graduates of the theoretical right age as a share of the total population of the same age), the tendency for the indicator to level off would be weaker, especially for the base case.
15. In the model this is done by increasing foreign borrowing, which reduces the net asset position of the country relative to the rest of the world and is equivalent to drawing down foreign exchange reserves or liquidating foreign investment financed by the natural resource in the past. Here, the annual growth rates in foreign borrowing are assumed to be twice the annual growth rates in the base. As a result, the foreign debt stock in foreign currency is 30 percent higher in 2020 for the low-aid internal 2 case than for the other scenarios. Relative to GDP, the foreign debt stock is around 10 percentage points higher in 2020 for the low-aid internal 2 case than for the low-aid internal 1 case (which has a slightly slower rate of GDP growth and similar evolution for the exchange rate). References

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5

The International Community and Development: Trade, Aid, and the International Financial Institutions

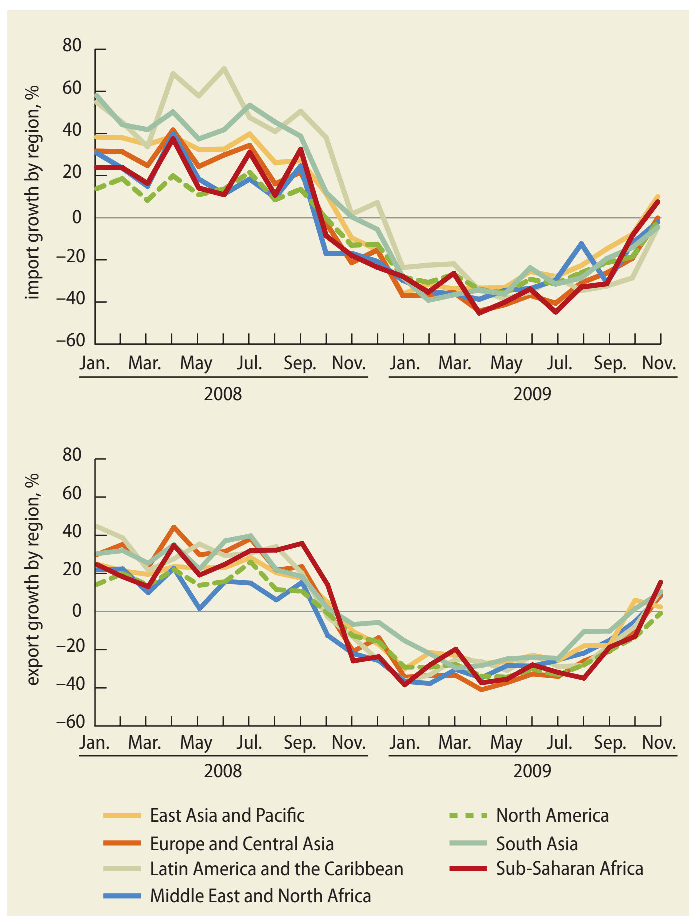
The global economic crisis severely reduced developing-country external resources by drastically curtailing their export revenues and their access to private capital flows. As elaborated in previous chapters, the resulting decline in economic activity sharply increased poverty and impaired public services to the poor. To a degree, the international system worked effectively to support developing-country access to external resources and limit the rise in poverty. Despite initial fears, increased trade restrictions in reaction to the crisis affected only a small part of international trade. Bilateral donors increased aid (at least through 2008), and the international financial institutions (IFIs) dramatically increased their lending. As the global recovery has taken hold, developing-country export revenues have begun to recover, and their access to external finance to improve, although both remain well below precrisis levels.

Despite these positive signs, the global recovery remains fragile, and continuing efforts of the global community to support development are essential. Although aid has hit record levels, aid flows remain well below those envisioned in donor promises, and the more constrained fiscal environment is a serious threat to future aid efforts. Further progress is required to strengthen aid effectiveness and improve aid allocation. Reaching agreement on the Doha Round would support an open trading environment and generate substantial increases in market access for developing countries. And the crisis has raised new development challenges, including questions about the sustainability of the IFIs' policy responses and their policies and structure for dealing with the challenges in the future—questions that now need to be resolved.

Recovering from the crisis through trade

World trade contracted by about 12 percent in 2009, and all regions experienced deep declines in imports (figure 5.1). Although demand for exports declined significantly in most developing countries, countries dependent on durable goods exports felt the sharpest decline. Demand was more resilient for nondurable consumer goods (such as clothing and food) and services (except the more volatile tourism sector). And continued growth in China meant countries in East Asia faced smaller drops in export demand than elsewhere. Developing countries also had sharp

FIGURE 5.1 Trade has bottomed out and started to recover

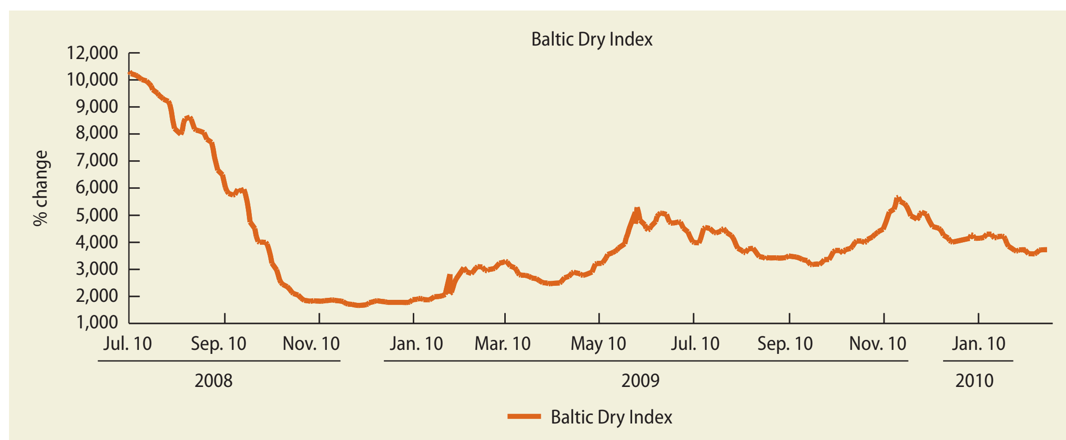


Source: World Bank Development Economics Trade and International Integration, Trade Watch, January 2010 (www.wordlbank.org/research/trade).
Note: Trade volume is the 3-month over 3-month growth rate (rolling, seasonally adjusted 3-month moving average).

declines in external finance: net private capital flows to developing countries in 2009 are estimated to have fallen almost 70 percent from their 2007 peak. Remittances, as much as 20 percent of GDP in some countries, have been more stable than capital flows and merchandise trade but nevertheless declined by an estimated 6.1 percent in 2009. All in all, by mid-2009, the collapse in developing-country external resources necessitated a sharp contraction in import demand, which fell to 25 percent below precrisis levels.

Almost a year into the trade recovery, especially in East Asia and the Pacific and Latin America, the dollar value of global trade remains around 20 percent lower than its precrisis level and 40 percent lower than it would have been had world trade continued to grow at its 2002–08 trend. A number of advanced indicators of trade developments underscore the fragility of the recovery. For instance, the Baltic Dry Index and air freight traffic point to a fragile rebound. The index, a measure of the cost of shipping bulk cargo by sea, picked up in February 2009 after a seven-month drop but has been hovering since then (figure 5.2). Given the uncertain recovery and still-depressed investment activity, world trade is projected to expand by only 4.3 percent in 2010 and by 6.2 percent in 2011.[1] While a strong recovery in developing countries' exports will depend on global macroeconomic developments, policies in both rich and poor

FIGURE 5.2 Baltic Dry Index points to a fragile rebound in shipping by sea



Source: Baltic Exchange Information Services Ltd 2010.

countries can play an important role. In particular, expanding developing-country access to foreign exchange through supporting trade finance, aid for trade, and maintaining an open trading environment will continue to play a critical role. These issues are taken in turn in the rest of this section.

Trade finance remains weak but shows signs of recovery

While the decline in developing-country exports was largely driven by the collapse in global demand, there is some evidence that the global credit crunch and sharp contraction in trade credit also contributed to the trade decline. For example, although surveys found that demand has been the major driving factor behind the contraction in trade credit, many respondents acknowledged that the reduced availability of trade finance instruments in their institutions contributed to the fall in trade finance volumes.[2] As the financial crisis deepened, trade finance tightened because of higher lending costs and risk premiums resulting from rising liquidity pressures, capital scarcity, and heightened risk aversion among trade finance providers for counterparty and country risks. The drying up of the secondary market for short-term exposure exacerbated the problem, as banks and other financial institutions deleveraged and such key players as Lehman Brothers exited the market. In an environment of global recession, banks may also have felt additional pressure to hold back on trade finance following implementation of the Basel II Accord on banking laws and regulations, which increased the risk sensitivity of capital requirements.

To mitigate the effects of these trade finance constraints, governments and multilateral development institutions responded with a range of trade finance programs, including a pledge by the Group of 20 (G-20) leaders at their April 2009 London Summit to ensure $250 billion in support for trade. The World Bank Group provided additional guarantees as well as liquidity for trade finance through the International Finance Corporation's (IFC) Global Trade Finance Program and Global Trade Liquidity Program. Recent data on export insurance and guarantees suggest that export credit agencies prevented a complete drying up of trade finance markets during the crisis.[3]

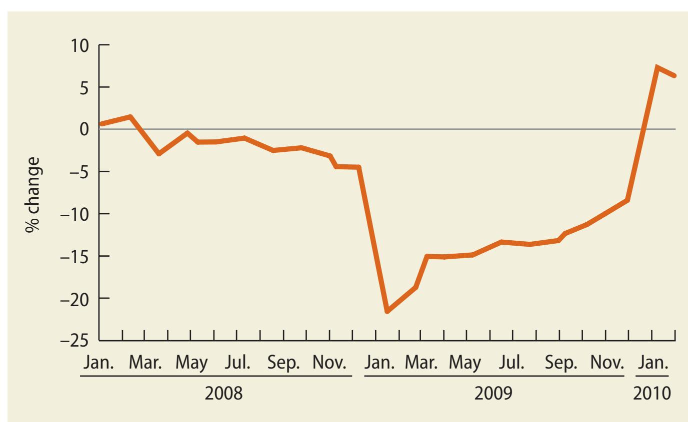
Lessons from past crises suggest that effective public actions in support of trade finance should be guided by several key principles, including the avoidance of moral hazard and the crowding out of commercial banks by setting clear time limits and exit strategies for intervention programs and by sharing, rather than fully underwriting, risk.[4] The substantial resources committed by G-20 leaders and multilateral institutions to support trade finance during the crisis underscore the critical importance of establishing a systematic and reliable mechanism to collect data on trade finance to monitor the market. Such a system could be used not only to assess how current interventions are influencing credit supply but also to provide an early warning of stress in trade credit provision.

Recent trade finance data indicate slight signs of improvement. According to a September 2009 report of the International Chamber of Commerce, banks' ability to provide trade credit has improved, reflecting enhanced capacity and liquidity in the banking sector and efforts by the international community to support trade finance instruments.[5] Data from the Society for Worldwide Interbank Financial Telecommunication document that short-term trade finance messages sent between banks for letters of credit, guarantees, and documentary collections collapsed in January 2009 and have gradually recovered since then, returning to positive territories in January 2010 (figure 5.3). Yet the number of trade messages during January-February 2010 remained more than 10 percent below the number registered during the same period in 2007 or 2008.

Maintaining an open trading environment is critical

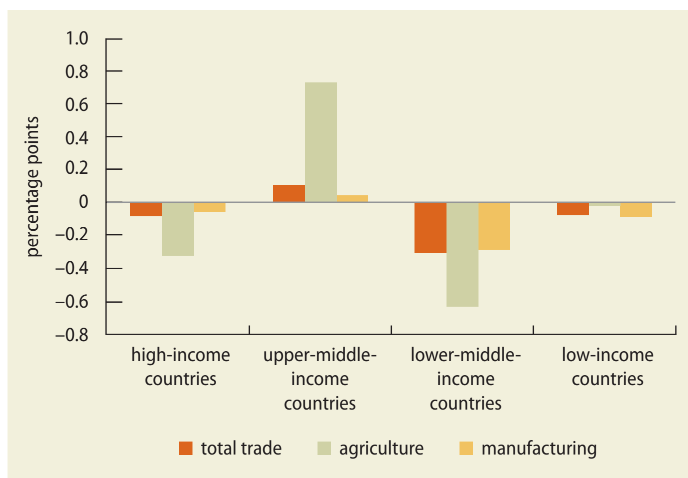
World leaders acknowledged early on the systemic risks stemming from protectionist policy responses such as those used during the Great Depression. The G-20 communiqués at the Washington, London, and Pittsburgh Summits in 2009 provided assurances that

FIGURE 5.3 Short-term trade finance messages increased steadily from Jan. 2009 to Feb. 2010



Source: SWIFTNET (www.swift.com).

FIGURE 5.4 Tariff rates fell except in upper-middle-income countries, 2008–09



Source: World Bank staff calculations.

governments would refrain from discriminatory trade measures. Since the onset of the crisis, many countries have adopted policies that favored domestic over foreign products.[6] In particular, all G-20 countries have imposed measures restricting trade since the November 2008 summit.[7] The Global Antidumping Database records a 19.7 percent rise in industry requests for trade barriers in 2009 over 2008, when requests were already 35.0 percent higher than in 2007. According to the World Trade Organization's (WTO) quarterly monitoring report, some 350 trade-restrictive measures had been put in place as of December 2009, although some of them have since been removed. Protectionist measures have included tariff increases (although tariff rates fell in many countries—figure 5.4—and generally remained below bounded limits set in multilateral trade agreements), various quantitative restrictions, trade remedies (antidumping) and subsidies, and domestic purchase requirements in stimulus packages.[8] The fourth report of the Global Trade Alert, published in February 2010, confirms that "low fever" protectionism continues, with several of the largest economies taking discriminatory measures.[9]

Meanwhile, some countries have reacted to the crisis by reducing trade barriers—about 77 trade-liberalizing measures have been taken since the onset of the crisis—in an effort to reduce costs for industries and households (figure 5.5).[10] Furthermore, the newly adopted trade restrictions have been applied mainly to specific sectors (such as agriculture and iron and steel, followed at some distance by consumer electronics and textiles, clothing, and footwear). The affected products account for only about 0.5 percent of world trade (although the backlog of ongoing investigations of requests for trade remedies may imply some increase in 2010). Also, many policies aimed at stimulating domestic demand and economic activity may have benefited trading partners when applied on a nondiscriminatory basis.

While protectionist measures taken during the crisis undoubtedly curtailed trade flows, they have affected a relatively small share of global trade, and their effect on international trade has been secondary to the lack of aggregate demand and the global credit crunch. So, while some countries and industries have seen their exports depressed by protectionist measures, the global trading system has largely weathered the threat of beggar-thy-neighbor policies that loomed large at the outset of the crisis. Perhaps helping to moderate a resort to

protectionist measures is the interdependence of countries in global supply and production chains. Domestic producers rely on imported parts, and exporters rely on foreign end-user markets—and vice versa. The average trade-to-GDP ratio today is about 60 percent, up from 27 percent in 1970, and trade in parts and components, an indicator of the internationalization of supply chains, has more than doubled as a share of trade in manufactures. WTO rules and disciplines have also helped, as have the monitoring, surveillance, and information exchange under its auspices.

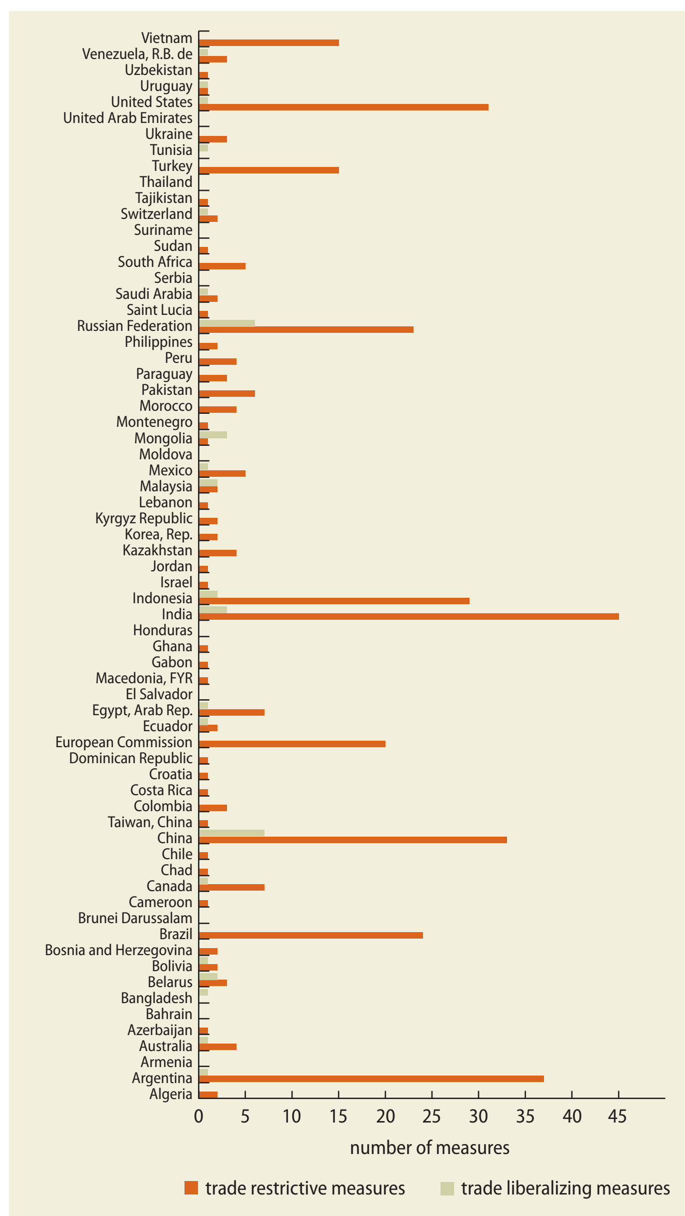
The danger of more protectionist responses during the global recovery—especially if it continues to be jobless—underlines the importance of maintaining an open trading environment. In particular, keeping trade open will be key to counter the effects of the withdrawal of expansionary fiscal and monetary policies and to support the global economic recovery.

Keeping up with the Doha Development Agenda

The global economic crisis has confirmed that trade rules matter and that WTO rules constrain protectionism. Indeed, it is worth noting that countries have been less able to resist protectionist pressures in areas not covered by multilateral disciplines or with limited coverage. Examples include export subsidies by the European Union and the United States, national bailout packages that call for preferential treatment for domestic firms, more restrictive policies on workers providing cross-border services, and discriminatory procurement.

Concluding the Doha Round remains an important milestone. As the global economy gradually recovers, governments must ensure that the long-run benefits of an open and transparent multilateral trading system are not compromised by short-run pressures to protect domestic markets. Concluding the Doha Round would not only improve market access. It would also strengthen the international trading system, constrain future increases in

FIGURE 5.5 About 350 trade-restrictive measures and 80 trade-liberalizing measures have been implemented or initiated since the onset of the crisis, but some have already been removed



Source: World Bank calculations based on WTO (2009).

tariffs and subsidies, help governments resist protectionist pressures as they unwind current expansionary policies, and provide a much needed boost to keep markets open.

So what is on the table at the negotiations in Geneva matters. Based on current

proposals, the Doha Round would do as much as any previous round, if not more to open trade.[11] The gains in market access would be considerable—even after factoring in exceptions for special and sensitive products. The round would lower tariff bindings, ban agricultural export subsidies, and cap agricultural and marine production subsidies. It also offers scope for increasing the security of market access for services. It would lower trade costs and enhance the competitiveness of developing countries through an agreement on trade facilitation. At the Seventh WTO Ministerial Conference in Geneva in November 2009, ministers reiterated the importance of trade and the Doha Round to economic recovery and poverty alleviation in developing countries. They reaffirmed the need to conclude the round in 2010 and to engage in a stocktaking exercise in the first quarter of 2010. But at this stage, only strong leadership and engagement by world leaders can revive the round and bring it to closure.

Beyond Doha, government actions in response to the crisis reveal the need for greater cooperation in the multilateral trading system to ensure that the cross-border policy matters that are not on the Doha Development Agenda are appropriately addressed. Potential areas for negotiating new rules and disciplines include food and energy security and trade-related climate change such as the treatment of environment goods and services to increase the global flow of clean, energy-efficient technologies and renewal energy. The limited guidelines and rules in these areas allow for discriminatory actions to be imposed with impunity, and the stalled Doha Round is preventing these issues from being properly addressed through negotiated rules and norms.

The crisis has also revealed the importance of strengthening monitoring and public reporting of government measures to improve transparency in the trading system so that WTO-compatible policies can be readily distinguished from discriminatory policies. Transparency is critical in maintaining a predictable and open trading system. Free-flowing information on policies affecting trade is essential for cooperation among countries seeking to manage the crisis. Comprehensive and timely notification of trade contingency measures (public procurement, subsidies, and other nontariff measures) to WTO bodies is needed to ensure proper monitoring.

Expanding aid for trade

Aid for trade has become more urgent with the global economic crisis. As the world economy recovers, developing countries will rely on international markets as a source of demand to revitalize economic growth. Enhancing the competitiveness of firms in developing countries by lowering trade costs through better trade policies and regulations, institutional support for trade, trade-related infrastructure, and trade-related adjustment is particularly important. Improving trade logistics is a priority for development (box 5.1). Sustaining efforts to deliver on the commitments made at the 2005 WTO Ministerial Meeting (in Hong Kong, China) to expand aid for trade should continue to be a priority.

The second global review of aid for trade, held in Geneva in July 2009, found that developing countries are setting priorities for trade in national development strategies; that donors are offering more and better aid for trade; and that new partners are engaging in cooperation among developing countries. Allocations to aid for trade have increased without reducing resources to other development priorities.[12] Improving the effectiveness of aid for trade requires strengthening its regional dimension and the contribution of the private sector, better evaluating its impact, and mobilizing resources beyond 2010.

World Bank Group concessional aid-for-trade lending has increased. Its concessional lending to low-income countries rose from $2.3 billion annually in 2002–05 to $3.9 billion in 2007–08 (table 5.1). The IFC investments in building new productive capacity and infrastructure in low-income countries have added another $3.4 billion in private investments. The aid-for-trade program of the World Bank Group, as with other donors,

BOX 5.1 Facilitating trade through logistics reforms

Efficient logistics contribute to trade and development. Evidence from the 2007 and 2010 World Bank Logistics Performance Index (LPI) indicates that, for countries at the same level of per capita income, those with the best logistics performance do better: they can expect 1 percent additional growth in GDP and 2 percent additional growth in trade.[a] Efficient trade logistics systems support trade diversification and attract foreign direct investment.

The 2010 LPI points to modest but positive trends in customs use of information technologies for trade and investment in private services. It finds that logistics overperformers—countries with a higher LPI score than income would predict—have consistently invested in reforms. Encouraging trends are emerging in infrastructure, reflecting successful trade facilitation projects. In port management, separation of commercial activities from the regulatory missions of the port authority is now the norm in developing countries, and there are many examples of successful private participation in container terminal operations. Automation of customs procedures is also common, with only a few countries lacking some form of automated customs system. But logistics professionals also confirmed that the quantity and performance of infrastructure, especially roads and ports, remain significant bottlenecks in most low-income countries—and, in relative terms, even more so in middle-income countries.

Transport reform has become a key development priority. Traditional efforts to facilitate trade have focused on supporting trade infrastructure investment and modernizing customs. Looking forward, the focus will be extended to new areas, such as the market for logistics services, coordination of border processes, and joint cross-border initiatives, especially for landlocked countries (World Bank 2006). Some of these reforms can be implemented at the country level. Others require bilateral and regional cooperation, such as border and transit trade for landlocked countries.

Taking a more comprehensive approach to the clearance of goods is a key element in the new trade facilitation agenda. It requires better collaboration among all border management agencies—including standards, sanitary, phytosanitary, transport, and veterinary agencies—and modern approaches to regulatory compliance. It matters little that customs agencies employ high levels of automation and examines goods selectively if other government agencies are not automated and continue to routinely inspect all imported goods regardless of the risk they pose.

a. The LPI summarizes the performance of countries in six areas: efficiency of the customs clearance process, quality of trade and transport-related infrastructure, ease of arranging competitively priced shipments, competence and quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled or expected time (Arvis and others 2010). The LPI is based on more than 5,000 country assessments by more than 1,000 international freight forwarders. It provides trade profiles for 155 countries.

goes beyond concessional lending commitments to low-income countries—the conventional definition used by the Organisation for Economic Co-operation and Development (OECD) and the WTO—and includes nonconcessional trade–related lending to middle-income countries. Promoting trade-led growth in middle-income countries generates market opportunities for neighboring low-income countries and has positive spin-offs for the world economy.

The World Bank Group—working with other organizations such as the WTO, United Nations Conference on Trade and Development, United Nations Development Programme, and the International Trade Center—has provided technical assistance and financing for trade capacity-building projects. The significant progress in integrating trade into development strategies reflects a collective effort by governments and donors and by the trade and development communities. One measure of this integration is that two-thirds of country assistance strategies, which partner governments and the World Bank forge, identify trade as a priority.

TABLE 5.1 World Bank Group trade-related activities, 2007 and 2008
commitments, US$ millions

Year, income group, activity	Public sector (loans and grants)	Private sector (IFC)	Total
2007			
Low-income countries (IDA)	**4,267**	**3,514**	**7,782**
Country programs	3,313	3,020	6,332
Regional activities	954	495	1,449
Middle-income countries (IBRD)	**4,905**	**6,302**	**11,206**
Total 2007	*9,172*	*9,816*	*18,988*
2008			
Low-income countries (IDA)	**3,520**	**3,304**	**6,824**
Country programs	3,245	2,770	6,016
Regional activities	275	533	808
Middle-income countries (IBRD)	**8,263**	**5,772**	**14,035**
Total 2008	*11,782*	*9,076*	*20,858*

Source: World Bank staff calculations.
Note: This table uses the OECD-WTO definition of sectoral coverage for aid for trade. IDA = International Development Association; IBRD = International Bank for Reconstruction and Development.

Bringing aid flows back on track

Global aid has risen, and donors are so far holding to their commitments to increase aid. But it remains only 80 percent of the 2010 level implied by donor promises, and the shortfall is particularly large for aid to Africa. Increasing aid must remain a political priority to prevent the crisis from seriously damaging development prospects and to keep alive the hope of halving poverty by 2015.

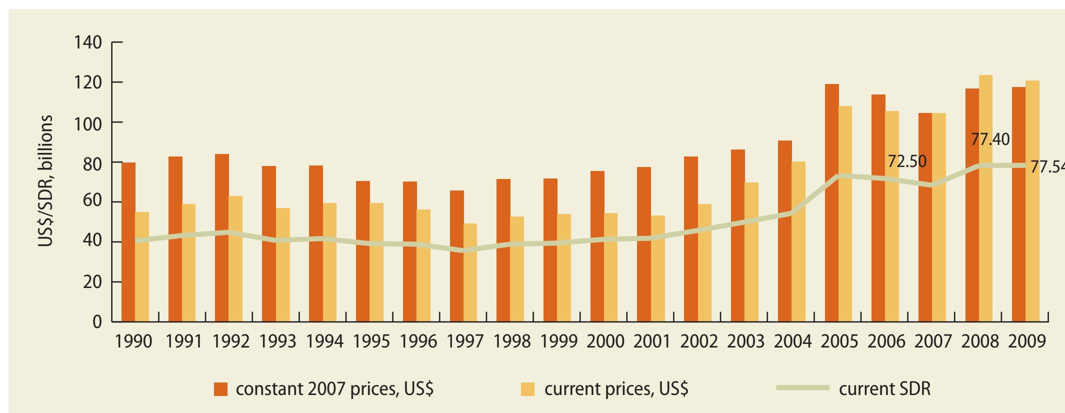
Aid volumes rose in real terms during the crisis years, 2008–09, but greater efforts are still needed

Following an 11.7 percent increase in 2008, total net official development assistance (ODA) from the OECD's Development Assistance Committee (DAC) countries rose slightly by 0.7 percent in real terms in 2009. (But in current U.S. dollars, it actually fell from $122.3 billion in 2008 to $119.6 billion in 2009.) The 2009 figure represents 0.31 percent of members' combined gross national income (GNI). ODA from the United States, the largest donor, rose 5.4 percent in real terms to $29 billion—0.20 percent of GNI, up from 0.19 percent in 2008 (figure 5.6). Aid from the United Kingdom rose to $11.5 billion, 0.52 percent of GNI. Combined ODA from the 15 European Union members of the DAC fell back slightly to 10 percent in real terms to $67 billion (44 percent of all DAC ODA).

Other donors recording a sharp increase in aid in real terms were Greece (up 28.7 percent), Portugal (22.3 percent), and Spain (22.6 percent). The four largest donors in 2008, measured as a share of GNI, were Sweden (0.98 percent), Luxembourg (0.97 percent), Norway (0.88 percent), and the Netherlands (0.80 percent). Non-DAC aid continues to grow in importance, rising 63 percent in real terms in 2008 to $9.5 billion (for non-DAC donors reporting to DAC). Arab donors, led by Saudi Arabia, were the largest and fastest-growing component: their aid rose to $5.9 billion, a real increase of 115 percent over 2007.

The rise in aid is encouraging, but there is no room for complacency. DAC members have reaffirmed their aid commitments and agreed to maintain aid flows in line with these commitments. But in the current economic climate, donor countries have difficult budgetary choices to make and foreign aid could be at risk. Following the early 1990s recession, official development assistance from DAC donors fell from 0.33 percent of their combined GNI in 1992 to 0.22 percent in 1997. And the 2010 targets are slipping away. At the 2005 Group of Eight Summit in Gleneagles, Scotland, donors aimed to raise official development assistance by $50 billion in 2010 over the level in 2004 (2004

FIGURE 5.6 Net official development assistance rose in real terms in 2008 and 2009

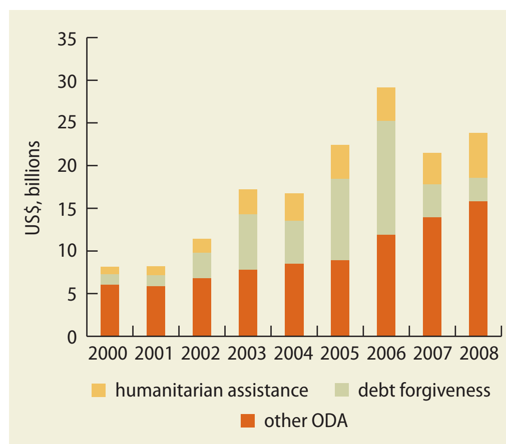


Source: OECD DAC.
Note: SDR = special drawing rights.

prices and exchange rates). And they pledged to increase official development assistance to Sub-Saharan Africa by $25 billion by 2010, more than double the 2004 level. Achieving the global aid target implies an increase of more than $20 billion in real terms from the 2008 level. The most recent OECD survey of donors' forward-spending plans indicates that after factoring in the aid increases already programmed, donors need to provide an additional $14 billion to meet the 2010 target. Nor is the outlook for 2011 more encouraging. Aid is programmed to increase only 3 percent in real terms in 2011 over that programmed for 2010.

Meeting the pledge to Sub-Saharan Africa will require an even greater effort. Aid to the region has risen considerably since the start of the decade, growing at 5 percent a year. In 2008 the region received 37 percent of global official development assistance—up from 30 percent in 1999–2000—with a much higher share as grants. But much of the increase has been in the form of debt relief and emergency and humanitarian assistance (figure 5.7).[13] At the 2002 Monterrey Conference on Financing for Development, donors pledged that debt relief would not displace other components of official development assistance. Meeting the Gleneagles target would require an increase of $20 billion over 2008, equivalent to a rise in net official development assistance of 25 percent annually for 2009 and 2010. Donors' forward-spending plans are for an additional

FIGURE 5.7 Significant amounts of official development assistance are in debt relief and humanitarian assistance

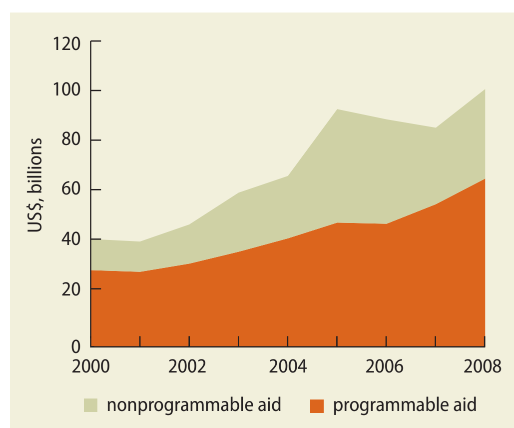


Source: OECD DAC.
Note: ODA = official development assistance.

$2 billion allocation for Sub-Saharan Africa, leaving a gap of $18 billion.

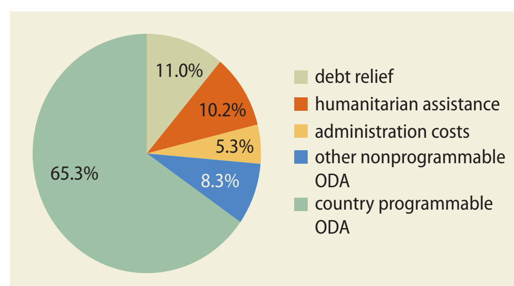
Programmable aid in support of core development programs is critical to achieving the MDGs, because it can be incorporated into developing-country budgets.[14] Although the share of programmable aid has risen, nonprogrammable categories still commanded a large share of aid flows in 2008 (figure 5.8). Nonprogrammable aid made up 35 percent of gross official development assistance flows from bilateral donors in 2008. That was down from a peak of 47 percent in 2005–06, when

FIGURE 5.8 Trends in gross official development aid from bilateral donors, by type, 2000–08



Source: OECD DAC.

FIGURE 5.9 Gross official development aid from bilateral donors, 2008



Source: OECD DAC.

large-scale debt relief operations were implemented (notably in Iraq and Nigeria), but was still well above the 28 percent recorded in 2000. Debt relief and humanitarian assistance combined accounted for 21 percent of gross bilateral flows in 2008 (figure 5.9).

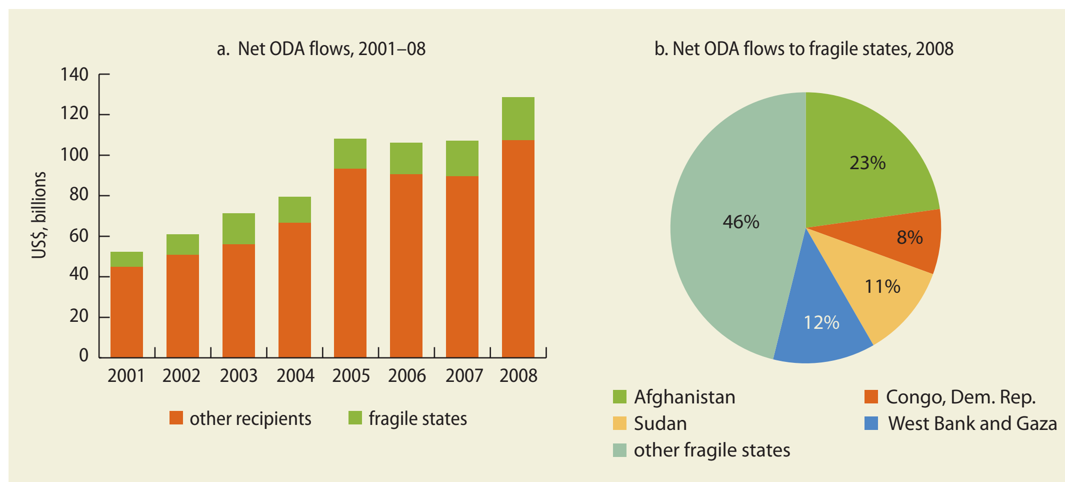
The outlook for country programmable aid is mixed. Based on information that donors provide to OECD-DAC, 102 countries are expected to benefit from a $10.3 billion increase in country programmable aid by 2010 (over 2005). Most likely to realize large increases are the priority aid partners for several DAC members, countries where the scaling up is firmly rooted in donor country strategies. An increase of more than $100 million is programmed for 33 countries, including Ethiopia, Kenya, Tanzania, and Vietnam, as well as for such middle-income countries as Colombia, Indonesia, Serbia, and Turkey. Less encouraging: for 51 countries, mainly in Africa and Asia, programmable aid is set to fall. The single largest projected decrease is for Iraq, down $2.5 billion. China, Arab Republic of Egypt, and Thailand are also expected to see aid fall in 2010 by more than $200 million each from 2005. But there is no discernible reallocation of programmable aid to poorer countries.

Fragile states combined received a total of $21.3 billion in net ODA flows in 2008 (figure 5.10). Despite their weak capacity and institutions, the share of total net ODA flows that goes to fragile states rose from 14 percent in 2001 to 16.5 percent in 2008. However, this aid is heavily concentrated in four recipients that account for more than 54 percent of the total. Almost one-quarter went to Afghanistan in 2008. If the flows going to Afghanistan are excluded, the share of total ODA going to fragile states has actually declined slightly, from 13.3 percent in 2001 to 12.7 percent in 2008. Additionally a large share of ODA to these countries has been in the form of emergency assistance or debt relief.

Making aid more effective

The Accra Agenda for Action, prepared by participants in the Third High Level Forum on Aid Effectiveness in Accra September 2008, is a roadmap for making aid more effective.[15] It builds on the aid business model of the Paris Declaration on Aid Effectiveness, agreed in March 2005, and signals profound changes for donors and developing countries. The agenda aims to strengthen country ownership of the development process and align donor priorities with those of the country by building effective and inclusive partnerships. To achieve these goals, it calls for donors to make aid more predictable, rationalize the division of labor among donors, untie aid from the provision of goods and services in the donor country, allocate aid according to need and merit, and address the problem of countries that receive too little aid. Efforts by donors to meet their commitments for increased aid must also be matched by better

FIGURE 5.10 Fragile states received $21.3 billion net official development assistance in 2008



Source: OECD DAC.

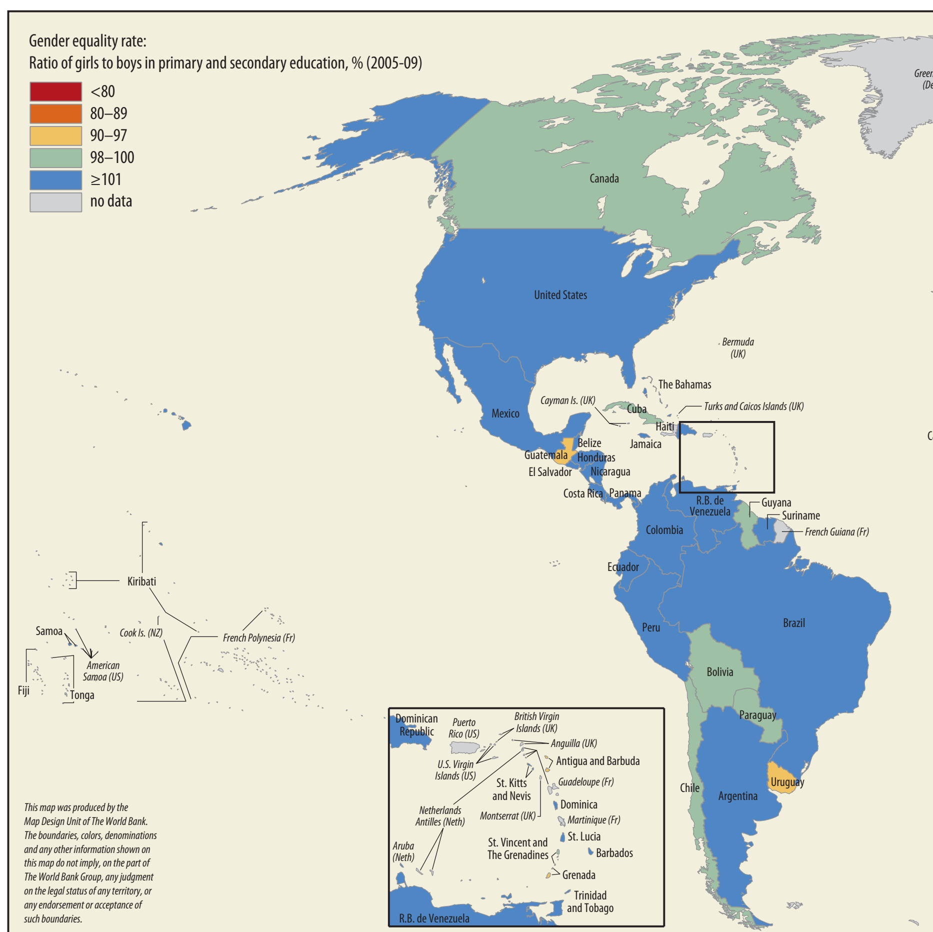
policies in developing countries to absorb and use aid more efficiently.

Predictable aid is fundamental to its effectiveness. To smooth shortfalls from aid surprises, aid-dependent countries must rely on their limited scope for domestic borrowing, which can increase inflation and crowd out private investment. Without good information on the resources that will be available, aid recipients cannot plan their own expenditures or participate meaningfully in determining how aid is allocated and used. However, recipients also need to improve their own budget planning and programming to be able to use the forward-looking information from donors.

DAC donors have committed to making aid more predictable so that developing countries can plan for long-term sustainable growth. But in many cases donors do not reveal their aid spending plans early enough for countries to factor them into their medium- and long-term planning, or they fail to stick to their commitments. Although the OECD does publish annual information on donors' forward-spending plans, these data are of limited use for developing countries: for reasons of confidentiality, the reports do not show country breakdowns, do not represent firm aid commitments, and for some countries are incomplete. Donors need to agree on an acceptable way of making their planning assumptions accessible to developing-country policy makers to reduce information gaps. One option would be a forum for presenting and discussing trends in future allocations in detail. Under the recent International Aid Transparency Initiative, a group of development partners, partner countries, and nongovernmental organizations (NGOs) will prepare a common set of standards for all donors and countries to report on aid, including forward-looking aid plans.

Reducing fragmentation and strengthening aid coordination is essential to enhancing aid effectiveness. When aid comes in too many small slices from too many donors, transaction costs go up and recipient countries have difficulty managing their own development agenda. In 2006, 38 recipient countries each received assistance from 25 or more DAC and multilateral donors. In 24 of these countries, 15 or more donors collectively provided less than 10 percent of that country's total aid. The number of aid agencies has also grown enormously, with about 225 bilateral and 242 multilateral agencies funding more than 35,000 activities each year. A recent OECD survey revealed that in 2007 there were 15,229 donor missions to 54 countries—more than 800 to Vietnam alone. The scope for reducing the number of donors operating in some countries without jeopardizing diversification or overall aid levels is thus considerable.

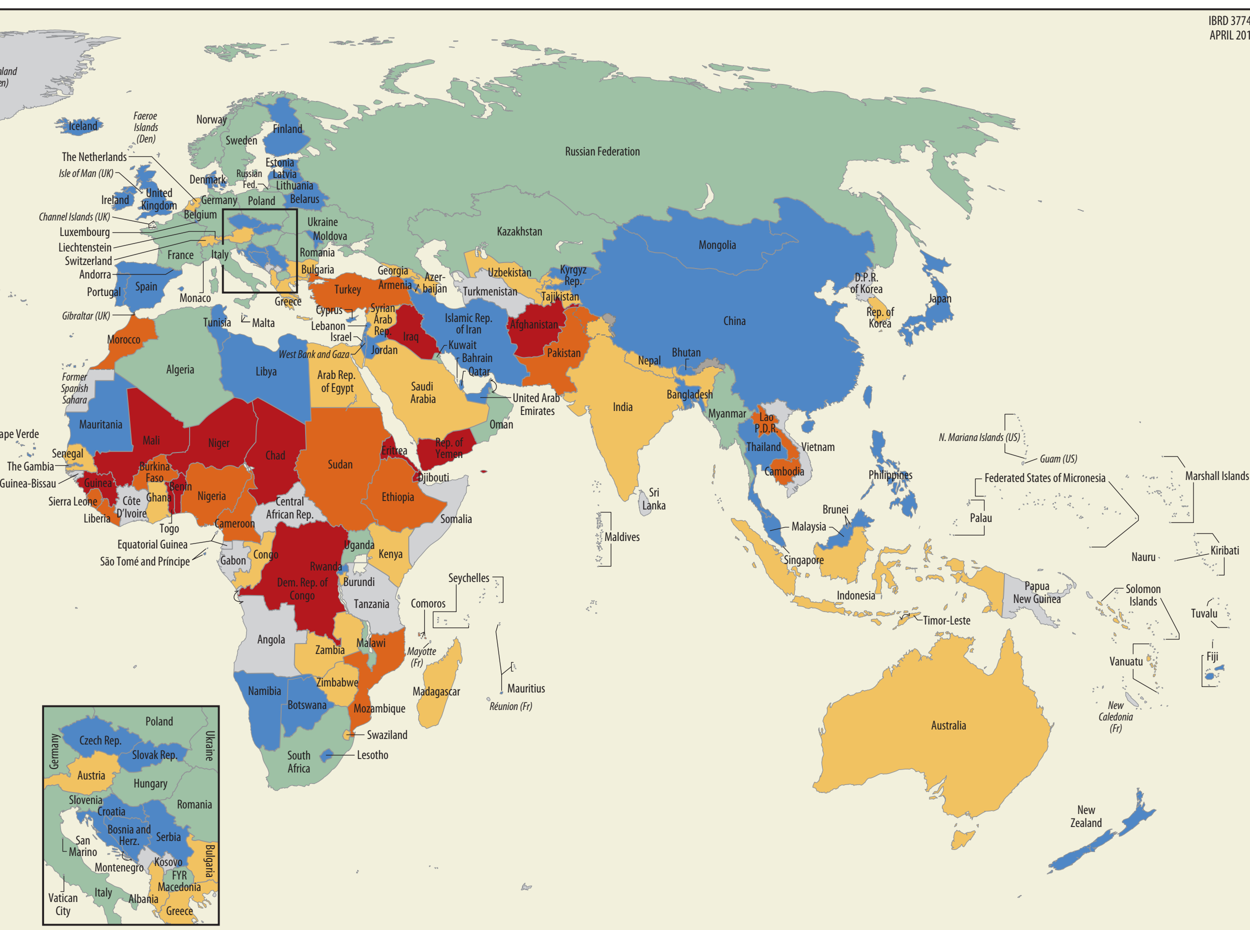
MAP 5.1 Each year of a girl's education reduces, by 10 percent, the risk of her children dying before age five



Source: World Development Indicators.

There is broad agreement on the need for a coherent division of labor among donors, and the Accra Agenda for Action urges donors to concentrate on fewer countries and sectors. Doing so would require coordinated allocation principles and aid monitoring across the whole donor community. But this is a sensitive topic, touching on comparative advantage, specialization, and delegation. Some progress has been achieved with broader use of program-based approaches, and elaboration of principles, including the 2007 European Union Code of Conduct on Complementarity and Division of Labor. Donors have started working together to reduce the number of diagnostic reviews and duplicative missions. It is critical that recipient countries take a strong leadership role in coordinating donor activities.

The full benefit of untying aid remains unrealized. Untying aid and allowing developing countries to make their own procurement decisions are key to making aid more effective. Untied aid procured through open international competition offers the best prospect of good value for money and, when coupled with sound procurement systems, supports



developing-country ownership of aid. Numerous studies confirm that goods, works, and services procured under tied aid regimes that restrict procurement to suppliers from the donor country cost 15–25 percent more on average and are more influenced by supplier interests and capacities.

Since the landmark agreement by DAC donors in 2001 to untie financial aid to the least developed countries, there has been good progress. DAC donor countries have formally untied more than four-fifths of their ODA to the least developed countries, and a wider process of untying aid is under way. As of 2007, 79 percent of ODA was untied, 17 percent was still tied, and the status of 4 percent was not reported. Donors have recommended several changes, such as removing the thresholds below which untying is not required and including highly indebted poor countries not classified as least developed countries. Other provisions invite non-DAC donors to untie their aid as much as possible and to respect internationally agreed principles of environmental sustainability and corporate social responsibility.

Donors have committed to untying aid in categories traditionally regarded as difficult

to untie and outside the scope of the 2001 agreement, such as food aid, technical cooperation, and consultant costs. Several DAC donors have already untied all or large amounts of their aid in these categories, and others are moving toward this. Under the Accra Agenda for Action, all DAC donors will elaborate their plans in 2010 to untie aid to the maximum extent. They have agreed to resist pressures arising from the global economic crisis to retie aid or to introduce new tied aid programs. They are also committed to improving performance in advance notifications and reporting on contract awards.

The case for untying aid is unequivocal on effectiveness and efficiency grounds. But despite the marked shift to largely untied aid, there is very little evidence-based analysis of the impact of untying on recipient countries. Does it reduce or increase administrative costs? Are benefits realized in the absence of an efficiently managed public finance regime? And why do opportunities for contract awards to local suppliers remain limited? The high share of contracts won by suppliers in some donor countries highlights a gap between untying aid and actual outcomes, suggesting the existence of informal constraints, such as prequalification and procurement processes, that favor national companies and limit opportunities for suppliers outside the donor country. DAC donors that report on contract awards indicated that in 2007 two-thirds of contracts (in number and value) were awarded to suppliers in OECD countries, the majority to suppliers in the donor country.

Many aid allocations are still driven by factors other than need and merit. Aid allocation practices differ widely. Multilateral development agencies have largely adopted aid allocation formulas aimed at ensuring efficient and transparent allocation, but most bilateral donors still allocate aid not on need and merit but on geopolitical ties and self-interest. A recent study using DAC data finds that almost half the predicted value of aid is still determined by donor-specific factors, one-third by need, a sixth by self-interest, and 2 percent by performance.[16] But research also suggests that donor aid allocation has changed greatly over the past three decades, with the influence of colonial ties, trade relationships, political allies, and debt levels diminishing as allocations become more responsive to recipient country income and performance.[17] Aid allocation patterns also reflect greater attention to countries recovering from conflict and facing external shocks. Aid from private sources, up in recent years, also affects overall aid allocation (box 5.2).

Considerable scope remains for a more rational, results-oriented, and needs-driven aid allocation mechanism. A substantial share of aid goes to middle-income countries, which received 46 percent of net ODA from all sources in 2008 (figure 5.11). While middle-income countries are home to many poor people and may need to step up their efforts to achieve the MDGs, they usually have options for funding not open to the poorest countries.

The distribution of aid among low-income countries varies widely. Over the past decade India received $1 per capita in aid, whereas Bosnia and Herzegovina received $129 per capita. Aid as a share of recipient country GNI shows similar large divergence, ranging from 0.1 percent for India to 189 percent for Liberia. Some countries in Sub-Saharan Africa received net official development assistance flows in 2008 greater than their GNI (figure 5.12).

While aid allocation undoubtedly could be improved, defining an “equitable share” of aid is problematic. Compared with financing needs, most developing countries would likely claim to receive insufficient aid, and costing exercises for the achievement of the MDGs indicate large unmet financing needs for most developing countries. A recent World Bank study[18] identified several normative benchmarks for apportioning aid:

- An egalitarian approach, in which each country receives the same amount of aid per capita or as a share of GDP.
- An average donor behavior approach, based on the relative weights donors attach to each recipient country’s needs and performance.

BOX 5.2 The allocation of aid from private sources

Aid from private sources has increased greatly in recent years. The 2009 Index of Global Philanthropy and Remittances estimates that aid to developing countries from private foundations, nongovernmental programs, and donations in OECD countries amounted to $49 billion in 2007, while official development assistance totaled $103 billion. Information on the allocation of private aid is limited, but recent studies suggest that allocations by nongovernmental organizations (NGOs) are driven by indicators of recipient need. One study finds that nongovernmental organizations exercise greater selectivity than official bilateral donors and provide, on average, more aid per capita to countries ranked by the United Nations as having the highest priority needs.

Some countries receive large amounts of aid from NGOs and others relatively little. The factors driving allocation include internal and external economies of scale and the tendency of NGOs to complement, not substitute for, bilateral aid. In that sense, NGOs may contribute to the problem of some countries receiving an inequitably small share of global aid.

A study in Sweden comparing aid allocation by NGOs with the country's official development assistance shows that the NGOs are more selective. Aid from both official and private sources declines as recipient country income rises, but the trend is more pronounced for aid from NGOs. A study of the impact of aid, measured per capita, finds a positive correlation between aid and the incidence of infant mortality and illiteracy for NGO aid but not for official aid.

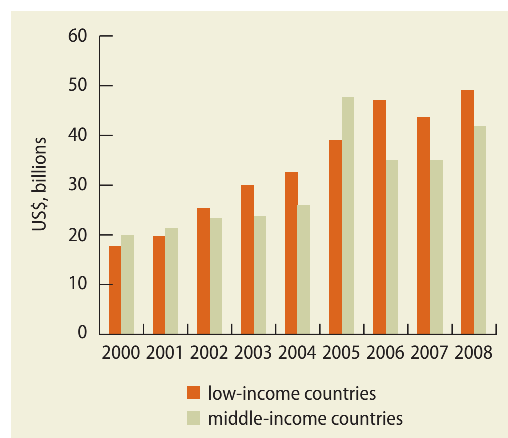
Source: Hudson Institute 2009; Koch 2007; Dreher and others 2007; Masud and Yontcheva 2005.

- A poverty-efficient approach that maximizes global poverty reduction.
- A performance-based approach, using the mechanism that underpins the International Development Association (IDA) allocation formula.
- The OECD approach, which ranks aid receipts by ODA per capita and per capita income to identify relative underfunding.

Behind each approach are implicit or explicit value judgments on the relative importance of need and the ability to use aid effectively.

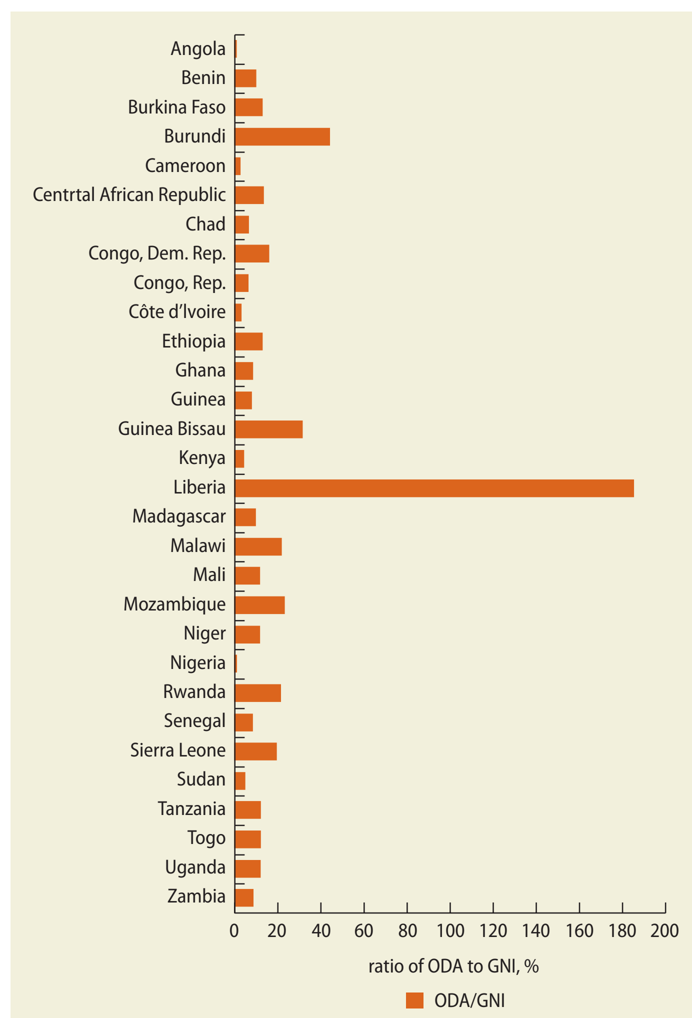
The countries considered to receive insufficient aid (aid receipts at least 1 percentage point of GDP below the benchmark allocation) vary according to the allocation benchmark selected. There are also wide disparities in the countries found to receive insufficient aid: extremely poor countries with low per capita incomes, where needs are greatest; poor performers, where aid may not be used effectively; strong performers that could productively use higher volumes of aid; and countries with a small population and high fixed costs for public service delivery. There is no evidence that fragile states have a greater or lesser propensity to receive insufficient aid than other low-income countries. Of the 61 low-income countries examined, 37 received insufficient aid according to at least one benchmark, 17

FIGURE 5.11 Net official development assistance from all sources, by income group, 2000–08



Source: OECD DAC.

FIGURE 5.12 Net ODA varies widely as a share of GNI in Sub-Saharan Africa



Source: OECD DAC.

according to two benchmarks, and 7—mostly in Sub-Saharan Africa—according to three or more benchmarks. Under the IDA performance-based aid allocation formula, the amount required to raise aid levels to the norm is estimated at $3.3 billion a year; under the poverty efficiency benchmark, the amount rises to $12.5 billion. These are large amounts representing roughly 7 percent and 25 percent, respectively, of programmable aid from bilateral donors to countries excluding Sub-Saharan Africa.

Variations in aid are not just supply driven. The decision to provide or withhold aid depends on many factors, including effective demand and the relative merits or difficulties of investing in a given country. But donor agreement to clarify definitions and benchmarks would help set the stage for a best-effort commitment from all donors to raise ODA in some subset of countries faster than the average growth rate. Large-scale reallocation of current aid is neither feasible nor desirable, but donors should consider rebalancing future aid increases.

Debt relief: progress and challenges

Since the Monterrey Conference on Financing for Development in 2002, substantial progress has been made in implementing the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Of 40 eligible countries, 35 have passed the decision point and qualified for HIPC assistance. Of those, 28 countries have reached the completion point and qualify for debt relief as of January 2010. Several other countries are also well on their way to the completion point. As a result, the debt burdens of many poor countries have been markedly reduced. The overall assistance committed to the 35 post-decision-point countries represents an average of 40 percent of their 2008 GDP and, together with relief under traditional mechanisms and additional relief from Paris Club creditors, is expected to reduce their debt burden by more than 80 percent (figure 5.13). Poverty-reducing expenditures in these countries rose 2 percentage points of GDP between 2001 and 2008, while debt service obligations declined correspondingly.

Commercial creditors have also increased debt relief, largely through substantive debt relief to Côte d'Ivoire and Liberia. Debt relief for Côte d'Ivoire was provided through a rescheduling agreement in 1998. In April 2009 commercial creditors provided full debt relief to Liberia under a debt buyback operation supported by IDA's Debt Reduction Facility and contributions from bilateral donors.

Litigation by commercial creditors, an impediment to delivering full debt relief to heavily indebted poor countries, appears to have lessened although a small number of

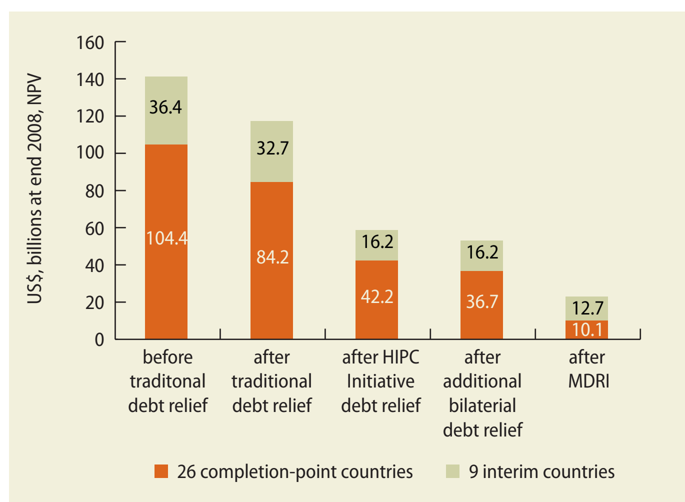
new lawsuits were initiated in 2009. Support for countries facing litigation is available from the African Legal Support Facility, launched by the African Development Bank on June 29, 2009, and initiatives are under way in some donor countries to introduce legislation curtailing the scope of litigation against heavily indebted poor countries.

Important challenges remain. Some pre-decision-point countries are beset by severe political problems. Almost half the countries have been affected by war in recent years, and many are still at a high risk of conflict, political instability, or both. To reach the completion point, they will need to strengthen their policies and institutions and receive continuing support from the international community. For post-completion-point countries, debt relief has greatly reduced debt vulnerabilities (table 5.2). However, a few post-completion-point countries remain vulnerable to debt-related problems, and six are still at high risk of debt distress.[19] Although the risk of a major debt crisis in heavily indebted poor countries appears limited, the current global economic crisis has made debt sustainability more difficult and underscores the need to implement sound borrowing policies and to strengthen capacity to manage debt.

IFIs responded to the crisis quickly and decisively

The IFIs boosted lending and adopted innovative programs to confront the global crisis and the subsequent development emergency.[20]

FIGURE 5.13 Debt stock of heavily indebted poor countries is expected to come down by 80 percent in end-2009 NPV



Source: HIPC Initiative country documents and IDA and IMF staff estimates.
Note: Estimates based on decision-point debt stock documents. NPV = net present value.

Total commitments (including concessional and nonconcessional loans plus grants) by the International Monetary Fund (IMF) and the multilateral development banks (MDBs) rose from $68 billion in 2007 to $234 billion in 2009. The goals of this assistance were to stabilize markets and avert the collapse of the banking and private sectors in developing countries, to limit the slide in economic growth and support the poor, and to minimize any interruption in development progress. The main instruments included balance of payments support for macroeconomic stabilization, budgetary support for government

TABLE 5.2 Distribution of debt distress by country group, end-July 2009
percent

Country group	Number of countries	Debt vulnerability: Low	Moderate	High	In debt distress (%)
All low income countries	67	29.9	35.8	22.4	11.9
Non-heavily indebted poor countries	28	32.1	39.3	25.0	3.6
Completion point, heavily indebted poor countries	28	39.3	39.3	21.4	0.0
Pre-completion point, heavily indebted poor countries	11	0.0	18.2	18.2	63.6
Interim countries	7	0.0	14.3	14.3	71.4
Pre-decision point countries	4	0.0	25.0	25.0	50.0

Source: Data are from individual countries' debt sustainability analysis in joint World Bank-IMF.
Note: Based on debt sustainability analyses as of end-July 2009. Low-income country group and non-heavily indebted poor countries exclude Azerbaijan, India, Kiribati, Maldives, Pakistan, Somalia, Timor Leste, and Uzbekistan. Pre-decision-point countries exclude Somalia. Countries that have passed the decision point qualify for full debt relief under the HIPC and MDRI Initiatives; interim countries are between the decision and completion points.

expenditures, guarantees to encourage investment in developing countries, technical assistance to strengthen development frameworks, and traditional lending to maintain critical investments in infrastructure and human development.

IFI financial support laid the basis for sustained recovery

The IMF quickly scaled up its assistance to help meet countries' increased financing needs. By the end of February 2010, the IMF had committed a record high total of $175 billion (including precautionary financing) to emerging and other developing countries with balance of payments difficulties. This financing included a sharp increase in concessional lending to the world's poorest countries—with new commitments amounting to almost $3.4 billion since the beginning of 2009, up from $1.4 billion for 2008. Fifty-five countries now have an arrangement with the IMF. The global financial safety net has also been strengthened with the general allocation of special drawing rights (totaling $250 billion), with more than $32 billion to emerging market economies and $18 billion to low-income countries.

The global nature of the crisis led the IMF to take swift action to adapt its lending and conditionality frameworks to the new circumstances. Standard access to IMF financing have been doubled, and the provision of exceptionally large loans has become easier, while adequate safeguards have been preserved. The new flexible credit line, a facility without ex-post policy conditions for countries with very strong track records, has proven very effective. Colombia, Mexico, and Poland have received support under the facility, helping to stabilize their economies, mitigating contagion effects, and laying the basis for a recovery. Costa Rica, El Salvador, and Guatemala are receiving support under the High Access Precautionary Standby Arrangement, a regular lending window (box 5.3). The IMF's new conditionality framework encourages greater focus on the achievement of reform objectives in critical areas, while providing greater flexibility on the timing and content of policy measures.

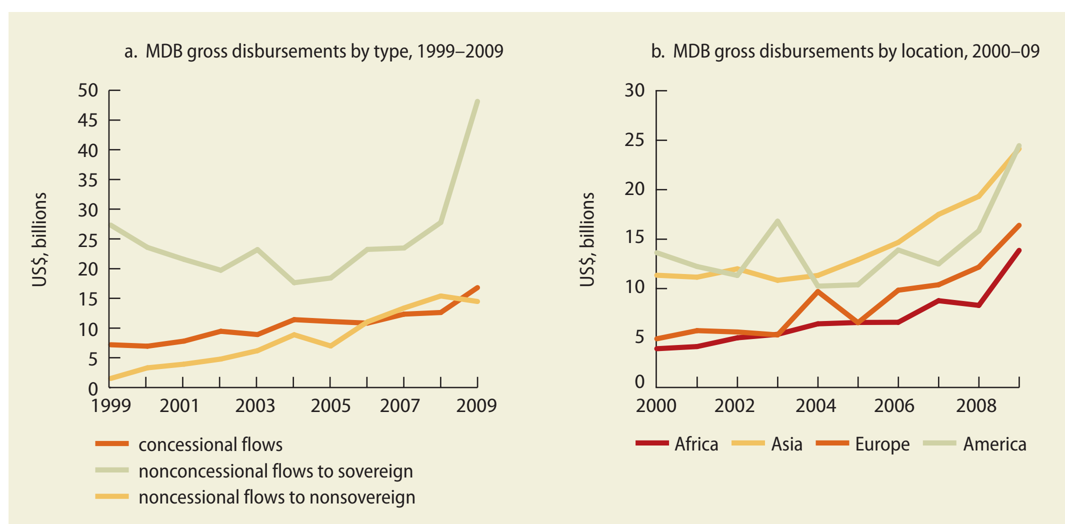
BOX 5.3 The IMF's engagement with low-income countries

To make financial support more flexible and tailored to the diversity of low-income countries, the architecture of the IMF's concessional facilities has been substantially revamped. The new Poverty Reduction and Growth Trust, effective on January 7, 2010, provides support through three new lending windows:

- The Extended Credit Facility, which replaced the Poverty Reduction and Growth Facility, provides sustained engagement to address medium-term protracted balance of payments problems.
- The Standby Credit Facility is available to low-income countries that no longer face protracted balance of payments problems but may need occasional help. It provides support to address short-term financing needs caused by shocks or policy slippages. It can also be used on a precautionary basis. In these respects it is similar to the nonconcessional standby arrangement available to all member countries.
- The Rapid Credit Facility provides limited financial support in a single, up-front payout for low-income countries facing urgent financing needs; the facility replaces the Rapid Access Component under the Exogenous Shocks Facility and the subsidized Emergency Assistance for Natural Disasters and the subsidized Emergency Post-Conflict Assistance. Successive drawings can be made by countries in postconflict or other fragile situations.

Programs under all three facilities emphasize poverty alleviation and growth linked to country-owned poverty reduction policies and may include targets to safeguard social and other priority spending.

FIGURE 5.14 Multilateral development banks substantially increased their disbursements, 2000–09



Source: Staff of the big five multilateral development banks.

The multilateral development banks also substantially increased their lending. Total MDB commitments rose from $67 billion in 2007 to $115 billion in 2009. The heavy reliance on quick-disbursing support meant that increased commitments were translated into a sharp rise in disbursements, from under $50 billion in 2007 to about $79 billion in 2009 (figure 5.14). Nonconcessional loans totaled about $62 billion, and concessional flows more than $16 billion. Latin America and Asia remained the major recipients of funds (32 percent each). Latin America and Europe witnessed the largest increases from 2007, with jumps in lending of 54 percent and 35 percent, respectively.

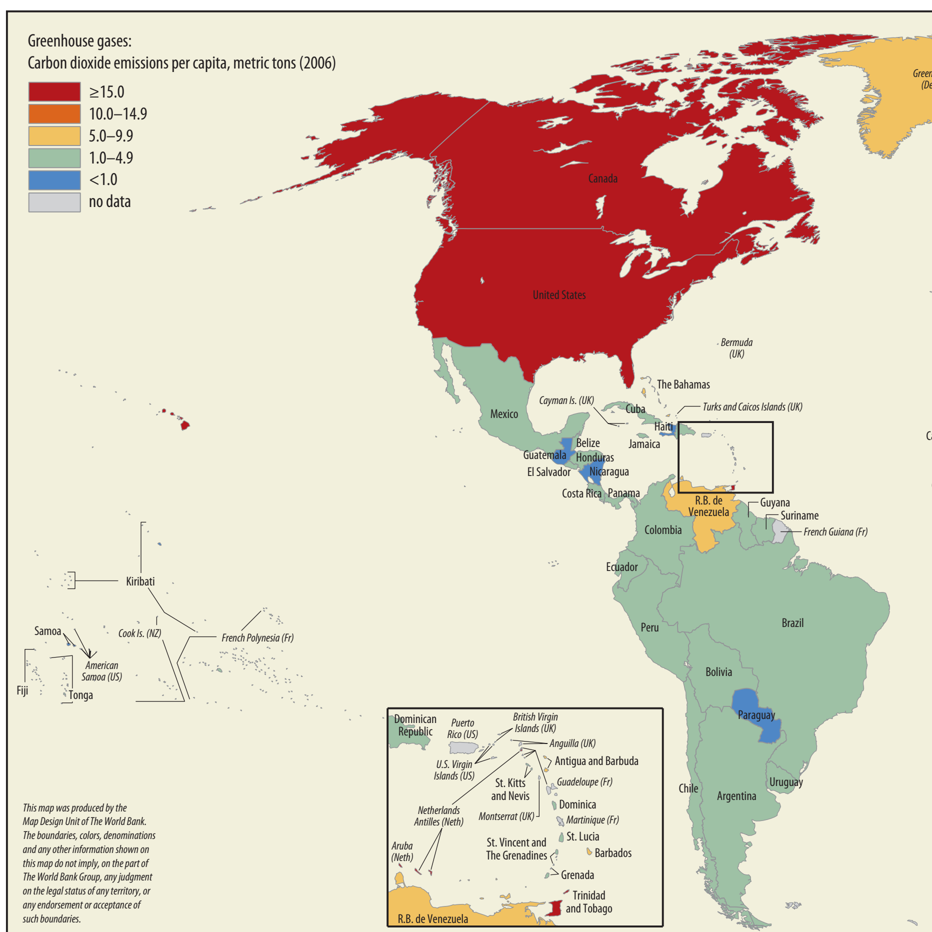
All the multilateral development banks participated in the surge in lending.

The World Bank Group commitments totaled $87.6 billion from July 2008 to December 2009. Its disbursements during this period were $59.9 billion. The first half of fiscal 2010 shows the strongest IBRD (International Bank for Reconstruction and Development) commitments in history ($19.2 billion), and the surge in lending is set to continue: for fiscal 2010 IBRD lending is on track to exceed $40 billion (table 5.3). IDA commitments reached $14 billion in 2009, more than 20 percent above the previous year.

The Asian Development Bank (ADB) boosted its total commitments from $11.3 billion in 2008 to $16.1 billion in 2009. It also accelerated its disbursements by establishing the Countercyclical Support Facility in June 2009 as a time-bound budget support instrument with funding of $3 billion. Consistent with the facility's quick-disbursing nature, $2 billion was disbursed by the end of 2009, and another $500 million was disbursed in March 2010. The Asian Development Fund (AsDF) provided almost $1.2 billion over 2008–10 to help low-income Asian countries cope with the crisis, 85 percent in program loans and 15 percent in project loans. The high proportion of AsDF program lending exceeded the ceiling for 2007–09 based on a 3-year moving average. In June 2009 the ADB also approved the allocation of an additional $400 million in Asian Development Fund commitments to the most fiscally stretched countries with low access to nonconcessional resources.

Commitments by the Inter-American Development Bank (IDB) rose from $11.3 billion in 2008 to $15.6 billion in 2009. Disbursements rose to nearly $12 billion in 2009, up from $7.6 billion in 2008. The IDB also provided more incremental concessional financing than had originally been scheduled for the 2009–10 cycle, in the form of both

MAP 5.2 Emissions in high-income countries overwhelm those in developing countries



Source: World Development Indicators.

grants and blended financing. Its concessional resources, in the Fund for Special Operations, were severely constrained over the past several years because of debt relief. As a consequence, it stopped providing concessional lending purely from that fund in 2007 and implemented a blended loan structure with ordinary capital to maintain resources and concessionality.

The African Development Bank (AfDB) almost doubled its commitments in 2009, to $10.1 billion, while taking steps to frontload disbursements, improve response times, introduce new instruments to meet clients' evolving needs, and leverage its balance sheet. In response to the diminishing availability of capital and the withdrawal of commercial partners from projects, it set up a $1.5 billion Emergency Liquidity Facility for bridging finance with fast-track approvals. The African Development Fund's (AfDF's) allocable resources increased by 1.4 percent in 2009, and nine fragile states received allocations that were on average, 11 percent larger than in 2008.

Commitments by the European Bank for Reconstruction and Development (EBRD) increased more than 50 percent in 2009, to $7.9 billion. Some 40 percent of the crisis response activity was provided to early and intermediate transition countries, which include the poorest members of the ERBD

community. EBRD's operations are targeting the financial sector by strengthening bank balance sheets and ensuring bank capacity to continue lending for trade and the real economy, especially small and medium-sized enterprises, and by addressing firms' short-term refinancing needs through the enterprise response package and infrastructure projects left unfunded by the dwindling of commercial lending.

To accelerate their response to the crisis, the IFIs have boosted flows to the poorest countries by frontloading available resources. The standard IDA frontloading rule was relaxed in fiscal 2009, allowing countries to frontload up to half their annual allocation (instead of 30 percent) for programs or projects that respond to the crisis. The Financial Crisis Response Fast-Track Facility was set up to fast-track up to $2 billion of IDA15 resources from existing country allocations and shorten the review period for eligible operations. By December 2009 more than $1.5 billion had been approved. AsDF-eligible borrowers were allowed to frontload up to 100 percent of their biennial allocation during 2009. AfDF assistance also has been heavily frontloaded. At the end of December 2009, two years into the AfDF-11 cycle, 86 percent of resources had been committed. The current AfDF balance available for operations commitment for 2010 is only $1 billion, well

TABLE 5.3 Gross commitments by IFIs, 2007–09
US$ billions (as of December 31, 2009)

Institution	2007	2008	2009	Jul. 2008–Dec. 2009
World Bank Group	**36.5**	**47.0**	**65.0**	**87.6**
International Bank for Reconstruction and Development	11.2	22.6	39.4	52.1
International Development Association	12.7	11.4	13.8	18.3
International Finance Corporation	10.3	11.5	10.5	15.3
Multilateral Investment Guarantee Agency[a]	2.3	1.5	1.3	1.9
Asian Development Bank[b]	**10.8**	**11.3**	**16.1**	**24.5**
African Development Bank	**4.9**	**5.4**	**10.1**	—
European Bank for Reconstruction and Development	**5.6**	**5.1**	**7.9**	**10.0**
Inter-American Development Bank	**8.8**	**11.3**	**15.6**	**23.4**
International Monetary Fund[c]	**1.3**	**48.7**	**119.0**	**169.8**
General Resources Account	1.1	47.7	116.4	166.6
Standby	1.1	47.6	35.9	86.1
Flexible credit line	0.0	0.0	80.4	80.5
Extended arrangement	0.0	0.0	0.0	0.0
Poverty Reduction and Growth Facility/Exogenous Shocks Facility				
Poverty Reduction and Growth Facility	0.3	1.1	1.9	2.0
Exogenous Shocks Facility	0.0	0.4	1.3	1.6
Memo: ENDA/EPCA	0.1	0.3	0.0	0.0

Source: Various IFIs.
Note: ENDA – Emergency Natural Disaster Assistance. EPCA – Emergency Postconflict Assistance. — = not available.
a. The amount of the guarantee is both the commitment and disbursement amount.
b. Data refer to approvals, net of cancellations, of sovereign and nonsovereign loans from ordinary capital resources, Asian Development Fund (ADF) loans, ADF grants, other grants, equities, guarantees, the Trade Finance Facilitation Program in 2009, and technical assistance.
c. The commitments were taken from the "IMF lending arrangements" report and include the total amount agreed only for those programs with "Date of arrangement" falling in the calendar year. Standard Drawing Rights were converted to U.S. dollars using the average conversion rate for the year. ENDA = Emergency Natural Disaster Assistance. EPCA = Emergency Post-Conflict Assistance.

below the fiscal 2010 pipeline of $2.3 billion. Absent increased resources, these essential steps to provide desperately needed resources at the height of the crisis will imply a substantial shortfall in concessional financing over the next couple of years.

The IFIs have also increased their lending to low-income countries by providing blends of concessional and nonconcessional loans. To tap the considerable potential for commercially viable and fiscally attractive foreign exchange–earning projects in many IDA countries, the IBRD is expanding the use of its resources for specific projects in IDA countries based on the IBRD Enclave framework for loans and partial risk guarantees for critical infrastructure and natural resource projects.

The IMF recently scaled up its concessional financial assistance, drawing on bilateral contributions and on resources linked to agreed gold sales, consistent with a new income model. The package doubles the Fund's concessional lending capacity over the medium term, providing up to $17 billion through 2014. This support will be frontloaded, making $8 billion available in the first two years, when crisis-related needs are greatest. It will also be provided on enhanced terms: no interest will be charged through the end of 2011 on concessional loans, and thereafter a new mechanism for updating interest rates will ensure permanently higher concessionality. To meet these new financing commitments, $14 billion in additional loan resources are being mobilized from member countries, and $2.3 billion in new subsidy resources secured from the IMF's internal resources, including those from the agreed gold sales and bilateral contributions. In light of the increasing ability of some low-income countries to support nonconcessional debt, the IMF has moved from a single design for concessionality requirements toward a menu of options linked to country circumstances. At the same time, the Debt Sustainability Framework for low-income countries has been made more flexible through closer attention to the impact

BOX 5.4 Gender equality as smart economics: A World Bank Group action plan

The World Bank Group adopted an action plan in 2007 to intensify and scale up gender mainstreaming in economic sectors, such as agriculture, private sector development, finance, and infrastructure, where progress was lagging. The action plan aims to increase Bank Group lending and nonlending operations that promote women's economic participation and to build analytic evidence in support of gender equality as smart economics. The Gender Action Plan promotes the collection, quality, and use of sex-disaggregated statistics and supports rigorous impact evaluation of Bank operations in economic sectors. The four-year plan comes to a close in December 2010 and has to date financed 220 initiatives in 74 countries, with most operations taking place in low-income countries.

The plan has tested innovative mechanisms to increase gender mainstreaming in traditionally difficult sectors. For example, small amounts of seed funding have helped leverage the initiative across much larger Bank operations, and competitive calls for proposals have attracted proposals from large numbers of Bank staff outside of gender units, leading to learning by doing. One effect has been increased gender coverage in economic sector operations. With the close of the action plan, the successful mechanisms for raising gender coverage will be applied to an increasing share of mainstream Bank operations. A transition plan is being prepared to detail the modalities.

Some examples of initiatives funded by the Gender Action Plan include:

- **Labor markets.** Developing employment orientation tools and training for women and career ladders for domestic workers for a $350 million Heads of Household Transition Project, with some 400,000 low-income women expected to benefit.
- **Infrastructure.** Increasing women's access to infrastructure, particularly transport and energy. A rural electrification project helped increase the connection rate of poor female-headed households. Work has also addressed women's transport needs in a series of countries.
- **Agriculture.** Increasing women's agricultural productivity and access to markets through a range of interventions. A comprehensive sourcebook to support women in agriculture has been developed in collaboration with the Food and Agriculture Organization and the International Fund for Agricultural Development and is being used in five ongoing Bank operations.
- **Adolescent girls initiative.** Smoothing the transition from school to work and entrepreneurship—a key stumbling block on the road to earning a living—with a focus on low-income, postconflict countries.

of public investment on growth, the role of remittances, and the treatment of external debt of state-owned enterprises.

Sectoral focus of MDB support

Much of the increase in MDB financing over the past two years took the form of budget support to quickly disburse funds to protect the most vulnerable against the fallout of the crisis, maintain planned infrastructure investment, and sustain private sector–led economic growth and employment creation.

Protecting the most vulnerable. The MDBs expanded their activities to protect the most vulnerable, first by helping countries manage higher food and fuel prices. The World Bank Global Food Crisis Response Program committed about $1.2 billion to the purpose, with disbursements of $790 million in more than 30 countries, $380 million of it for safety nets and nutrition in 21 countries. The MDBs later strengthened social safety nets and helped mitigate the social impacts of the crisis, and they have supported economic and social policy reforms essential for achieving more pro-poor and gender-inclusive growth (box 5.4). World Bank lending to support social safety nets reached more than $3 billion in 27 countries in fiscal 2009, including support to middle-income countries and grant funding for small, targeted projects in 17 low-income IDA countries (totaling $95

million). Building on lessons from the safety net programs, the World Bank launched the Rapid Social Response Program to help countries finance services for maternal and infant health and nutrition and school feeding programs, build or scale up targeted safety net programs, and provide income support to the unemployed.

Maintaining planned infrastructure investment. Support to planned infrastructure investment provides a short-term stimulus and addresses long-term development needs. So far infrastructure spending accounts for about two-thirds of the stimulus programs in emerging economies. To address the funding gap for infrastructure projects in developing countries with fiscal constraints, the World Bank launched an Infrastructure Recovery and Assets Platform, an umbrella for mobilizing additional finance for energy, transport, water, and information and communications technology infrastructure in developing countries beyond targets envisaged before the crisis. Overall, the World Bank (IBRD-IDA) increased infrastructure lending by more than 50 percent, from $11.9 billion in fiscal 2008 to $18.3 billion in fiscal 2009; the International Finance Corporation contributed $3.1 billion; and the Multilateral Investment Guarantee Agency (MIGA), $0.1 billion. In addition, the IFC financed more than $800 million in general infrastructure and other projects.[21]

The ADB's countercyclical support fund also helped fill the gaps of critical public infrastructure investments, including labor-intensive infrastructure projects and projects in support of social protection and poverty reduction programs. For example, in Bangladesh $500 million in support sought to free up fiscal space for financing other parts of the government's countercyclical development program—particularly the planned scaling-up of infrastructure investment. The AfDB helped develop the Action Plan for Africa, a regional and continental strategy for 2010–15. Its rigorously ranked pipeline of operations requires $10.2 billion in resources, with $7.7 billion for infrastructure and $1.7 billion for agriculture and food security. EBRD's projects support critical infrastructure left unfunded by the dwindling of commercial lending, with €1.3 billion worth of signed investments in 2009.

Sustaining private sector–led growth. The crisis has underlined the importance of quick and strong IFI support to private sector firms to help achieve growth, employment, and poverty reduction. The multilateral development banks' focus on access to finance for investment and trade, both expected to recover slowly, will be critical to preserve investments by small and medium-size enterprises. The IFC has launched a broad set of targeted initiatives, combining its funds with contributions mobilized from various sources (including governments and other IFIs) to help private enterprises cope with the global financial and economic crises (box 5.5). AsDB's crisis-related assistance to the private sector forcuses on rebuilding business confidence, providing incentives for private sector investments, and facilitating trade financing by expanding its Trade Finance Facilitation Program (TFFP).

Coordination with other development partners. To ensure speedy implementation, the IFIs have facilitated regional implementation programs to channel support by building a common platform for action among IFIs, regulators, and private groups in the banking sector. The IFIs have worked closely to assess and address the refinancing and recapitalization needs of banks, in collaboration with home and host country authorities.

Regional crisis initiatives include the joint IFI Action Plan for Africa, to leverage an additional $15 billion of financing to protect important ongoing programs and support investment-ready initiatives (box 5.6). The joint IFI Action Plan for Central and Eastern Europe, launched in March 2009, focuses on meeting the region's financial sector needs for capital and liquidity. The largest multilateral investors and lenders in the region agreed to provide up to $32.5 billion, with the World Bank Group providing up to $8 billion. This innovative arrangement has been augmented in 2010 by the Vienna Initiative, which brings together IFIs, European institutions,

BOX 5.5 Crisis-related initiatives of the International Finance Corporation

Over the past two years, the International Finance Corporation (IFC) board approved several initiatives that mobilized more than $10 billion in financing. While fund-raising continues, the initiatives are actively disbursing.

- The IFC Global Trade Finance Program, increased from $1 billion to $3 billion in response to the financial crisis, provides unfunded support in guarantees for trade transactions in emerging markets.
- The Global Trade Liquidity Program brings together governments, development finance institutions, and international banks to provide liquidity for trade-related transactions through banks in developing countries. Having begun operations in June 2009, it is expected to support more than $50 billion of trade finance assets through a network of more than 500 issuing banks.
- The Microfinance Enhancement Facility is a short- to medium-term facility expected to provide refinancing to more than 100 strong microfinance institutions in up to 40 countries.
- The Capitalization Fund aims to provide additional capital to ensure that banks in developing countries can continue to lend and support economic recovery and job creation during the crisis and after. The fund is making subordinated loans and equity or equity-linked investments in systemically important private banks or state-owned banks on a clear path to privatization, primarily in lower-income countries. The Japanese government, a founding partner, has invested $2 billion. IFC has invested $1 billion of its own in the fund.
- The Africa Capitalization Fund is a partnership among the African Development Bank, the European Investment Bank (EIB), the Organization of the Petroleum Exporting Countries' Fund for International Development, and Norway's Norfund. As a subfund of the IFC Capitalization Fund, it will focus on supporting the capital needs of strategically important banks in Africa.
- The Infrastructure Crisis Facility will provide short- to medium-term debt and equity funds to support private infrastructure projects affected by capital shortages caused by the global crisis. It will also include advisory services to help governments design or redesign public-private partnership projects. The IFC has committed to invest up to $300 million, and other parties, including KfW, Proparco, and the EIB, have already invested in debt and cofinancing.
- The Debt and Asset Recovery Program will make direct investments in strategically important private entities that have a good business model but require corporate debt restructuring and reprofiling. The program will also make direct IFC investments in nonperforming loan pools and equity investments in select distressed asset funds. With a target mobilization of $4 billion and the IFC contributions of $1.5 billion, the program will reduce the potential for financial crises while enhancing the market environment.
- IFC Asset Management Company, LLC, was established to manage some IFC-crisis response facilities. It is managing the IFC Capitalization Fund and an equity fund under the Sovereign Fund Initiative.
- The Global Food Fund seeks to shore up agribusiness and stabilize the global food supply chain with a short-term liquidity facility to provide working capital to agribusiness companies. A separate equity fund will support long-term growth in the sector. The IFC has approved $350 million for this initiative.

regulatory and fiscal authorities, and bank groups in an informal framework to discuss crisis management and resolution issues relating to systemically important cross-border bank groups. The Multilateral Crisis Initiative for Latin America and the Caribbean was organized to pool global financing from public and private sources and scale up crisis responses. Participating institutions are the IBRD, Andean Development Corporation, Caribbean Development Bank, and IDB. Together they pledge to provide up to $90 billion to support the private sector in Latin American and the Caribbean.

The IDB has also played a catalytic role in the flow of additional resources to Latin America through cofinancing agreements between the World Bank and major

BOX 5.6 Action Plan for Africa

The African financing partnership will pool resources and expertise to enable governments and institutions to more effectively reduce the humanitarian toll in the region. The participating institutions are the African Development Bank (AfDB) Group, the Agence Française de Développement (AFD) Group, the Development Bank of Southern Africa, the European Investment Bank (EIB), German Financial Cooperation, the International Islamic Trade Finance Corporation, and the World Bank Group. The plan envisages the following goals and actions.

- The AfDB will use an emergency liquidity facility of $1.5 billion to provide financial support to eligible countries and operations that are suffering from a lack of liquidity. It will introduce a new $500 million trade finance line of credit and consider committing $500 million to global trade finance liquidity programs to support commercial banks and other institutions that finance trade. It will contribute funds to support agribusiness and microfinance. And it will coordinate a platform for cofinancing projects in Africa through the African Financing Partnership.
- The AFD Group will contribute to investments and programs, totaling up to $3.1 billion, that focus on small and medium enterprises and infrastructure projects in Africa through Proparco, the Fonds d'Investissement et de Soutien aux Entreprises en Afrique, and loan guarantees. Launched with the AfDB, the International Fund for Agricultural Development, and Alliance for a Green Revolution in Africa, the African Agriculture Fund will raise €200 million during its first phase and €550 million subsequently to target private companies and cooperatives that increase and diversify agricultural production.
- The Development Bank of Southern Africa will boost its development financing for priority infrastructure projects by injecting more than $4 billion into these and other development sectors, an increase of more than 100 percent over the development finance disbursed in the past three years. The bank will also increase its technical and grant assistance for project development and training to more than $50 million.
- The EIB will step up its support for infrastructure and energy projects, notably through enhanced use of the European Union–Africa Infrastructure Trust Fund established at the initiative of the European Commission and managed by the EIB. It will also offer cofinancing in parallel with the IFC's infrastructure crisis facility. The EIB will further support Africa's financial sector through contributions to the Microfinance Enhancement Facility and other initiatives, lines of credit to banks with more flexible guidelines, and the provision of equity. And it will continue to work on private sector initiatives with partner institutions.
- Within the German Financial Cooperation with Africa, the Federal Ministry for Economic Development and Cooperation through the KfW Bankengruppe expects to contribute to initiatives and programs amounting to more than $1.4 billion in Sub-Saharan Africa to support the financial sector, the private sector, and infrastructure. The KfW Bankengruppe also expects to contribute to initiatives and programs amounting to more than $1.1 billion in Sub-Saharan Africa.
- The Islamic Development Bank Group, through the Islamic Corporation for the Development of the Private Sector, will contribute over the next five years to investments and programs totaling up to $250 million. Despite the current crisis, the Islamic Development Bank Group's Islamic Trade Finance Corporation, through its own resources, planned to maintain the same level of commitment of $150 million to support and facilitate financing for Africa in 2009. To scale up its intervention, it is intensifying its interaction with the IFC and AfDB to explore ways to leverage an additional $250 million by the end of 2009.
- As part of the World Bank Group's support, the IFC will contribute at least $1.0 billion to facilitate trade, strengthen the capital base of banks, improve infrastructure, increase microfinance lending, and promote agribusiness companies. The World Bank will frontload and fast-track its commitments and increase access to its funds to finance high-priority, high-return infrastructure investments that facilitate regional integration, asset preservation, and urban development. It will also assist partners in analyzing the impact of the crisis through knowledge products and outreach. The Multilateral Investment Guarantee Agency will provide up to $2 billion in investment guarantees to support investor demand for African infrastructure investment, small and medium investments, and support for the African financial sector, including banks and microfinance institutions.

international agencies. An agreement was signed with Japan's Bank for International Cooperation on building a framework to provide long-term financing for major infrastructure and critical social and economic investment projects. An agreement with Japan's International Cooperation Agency will offer concessional loans and technical assistance resources for projects in economic and social infrastructure, environment, and climate change. The Korean government, through Kexim Bank, signed an agreement to cofinance public and private sector projects in the region that could be worth as much as $2 billion. China and the IDB signed two partnerships at the Bank's annual meeting in March 2009.[22]

Other innovative ways to leverage the private sector. Beyond countercyclical financing, the multilateral development banks have moved forward with other programs to reduce risk in emerging markets. MIGA issued $1.4 billion in guarantees in fiscal 2009 and is increasing its support to systemically important financial institutions seeking political risk insurance for cross-border investments in their subsidiaries in emerging markets, about 90 percent of them in Eastern Europe. In fiscal 2010, $0.5 billion has already been signed, and MIGA is expected to issue an additional $2 billion to $3 billion in the context of the IFI Action Plan. The World Bank Group continues to explore new ways to use its balance sheet to create the conditions for reestablishing private capital flows. Recent efforts include formation of lender coalitions[23] and the expanded use of guarantees,[24] insurance instruments, and risk management products. The Bank is also continuing a dialogue with major underwriters of emerging market bond issuance and liability management experts to identify innovative cofinancing opportunities.

The AfDB has stepped up efforts to leverage private capital to maximize its impact through innovative financial products. In May 2009, in partnership with the Africa Commission (launched by the Danish Government in 2008), the AfDB agreed to set up an African Small and Medium Enterprises Guarantee Fund to address the constraint to investment finance and capacity development for financial institutions and such enterprises. The fund is expected to have initial capital of $300 million to $500 million, to mobilize loans worth $1.8 billion to $3 billion. The AfDB recently started discussions with some middle-income countries to consider issuing bonds on international capital markets with an AfDB guarantee. A guarantee program is also being developed that would provide political risk mitigation and promote private investments in poor and high-risk countries. The AfDB continues to offer partial credit guarantees and partial risk guarantees for middle-income countries. The partial credit guarantees support the mobilization of private funds for project finance, financial intermediation, and policy-based finance. The partial risk guarantees cover a variety of government and government agency risks, including contractual payment obligations and the availability and convertibility of foreign exchange.

Meeting the challenges of the postcrisis world

Even as the recovery progresses, it is clear that the crisis has dramatically altered the development challenges facing low- and middle-income countries and hence, those facing the international community. Moreover, necessary short-term responses to the crisis have important implications for the ability of donors and the international financial institutions to support developing countries going forward. Without analyzing these issues in detail or providing a prescription for reform, this section raises some of the main issues facing the global economic community as a result of the crisis.

First, while dangers of competitive protectionist measures and a breakdown of the world trading system were avoided, ensuring an open trading system remains an important goal of international economic policy. Completing the Doha Round would substantially improve developing countries' market access and enhance their competitiveness

through an agreement on trade facilitation. Beyond Doha, progress is needed in negotiating new rules and disciplines in trade-related climate change and in food and energy security. And increased support from donors and policy reform in developing countries will be required to ensure their institutions are capable of taking advantage of trade opportunities.

Second, the crisis has increased the importance of aid on addressing the rise in poverty. But the crisis has also led to substantial increases in government debt that will severely constrain fiscal resources in donor countries for the foreseeable future. It remains doubtful whether donors can sustain recent increases in aid, much less achieve the further increases required to meet donor commitments. In this context, it becomes more important than ever to make further progress in improving aid effectiveness through harmonizing donor activities, reducing the share of tied aid, increasing the predictability of aid disbursements, and improving aid allocations.

Third, in the absence of increased resources from donors, the crisis-induced frontloading of concessional resources by IDA and other multilateral agencies implies that concessional flows from these institutions must decline in the near future. It is unrealistic to expect that the IFIs can continue to achieve commitment and disbursement levels that exceed the resources set aside for concessional flows. However, the global recovery remains fragile, and a sharp decline in concessional assistance could seriously jeopardize development prospects in many low-income countries. Managing the availability and allocation of concessional resources will remain a major challenge for the IFIs as the recovery proceeds. Similarly, the sharp rise in IBRD commitments has highlighted the need for discussing a capital increase to avoid an eventual falloff in lending, while the need for nonconcessional resources is expected to remain high.

Fourth, the demand for technical support is likely to rise as countries seek to strengthen their financial sector regulation and supervisory frameworks; focus on improving the efficiency of public expenditures and the environment for private sector growth in light of increased budgetary stringency; and cope with increased debt burdens through adoption of sound borrowing policies and public debt management techniques.

These challenges are likely to require fundamental changes in the international financial institutions. Technical requirements for staff will shift (for example in favor of financial sector expertise). Bureaucratic structures may need to be redesigned (for example, there are discussions of decentralization at the World Bank). Coordination among the IFIs will need to be strengthened. And more resources will have to be mobilized. The international community has begun to respond to this agenda, as evidenced by the sharp increase in the IMF's lending resources and the discussions of the replenishment of concessional windows at the MDBs. The World Bank Group has initiated a postcrisis strategy or directions paper on development policy and is considering a proposed voting reform; measures to increase the World Bank's paid-in capital; and internal reforms to strengthen corporate governance, accountability, and operational effectiveness. But the urgency in establishing the appropriate policies for dealing with the postcrisis international economic environment leaves no room for complacency. The danger of a new Great Depression has been averted. But decisive leadership is still required to ensure a rapid and sustainable recovery.

Notes

1. World Bank 2010.
2. These included 88 major banks in 44 countries conducted in December 2008, March 2009, and August 2009 by the International Monetary Fund in cooperation with the Bankers Association for Finance and Trade (IMF-BAFT 2009); a World Bank survey of 425 firms and 78 banks and other financial institutions in 14 developing countries (Malouche 2009); and a survey by the International Chamber of Commerce of a sample of 122 banks in 59 countries from March 2009, updated in September 2009 (International Chamber of Commerce 2009).

3. Chauffour, Saborowski, and Soylemezoglu 2010.
4. Chauffour and Farole 2009.
5. International Chamber of Commerce 2009.
6. Gamberoni and Newfarmer 2009.
7. See the Global Anti-Dumping/Safeguard Database and the Global Trade Alert website http://www.globaltradealert.org/.
8. McKibbin, Warwick, and Stoeckel 2009.
9. www.globaltradealert.org
10. WTO, OECD, and UNCTAD 2009.
11. Hoekman, Martin, and Mattoo 2009.
12. WTO and OECD 2009.
13. If a country is not servicing its debt because of an unsustainable debt burden and is clearly unable to meet its obligations to external creditors, debt relief amounts to an accounting exercise for the recipient—it provides no additional financial resources.
14. It excludes aid that is unpredictable by nature such as humanitarian assistance, emergency relief, and debt relief; it includes no cross-border costs, such as administrative costs, student costs, and refugee costs in donor countries; and is not programmable by the donor, such as core funding of NGOs.
15. For information on the Accra Agenda for Action, see www.oecd.org/dac/effectiveness/parisdeclaration.
16. Hoeffler and Outram 2008.
17. Claessens, Cassimon, and van Camenhout 2007.
18. Utz 2009.
19. Burkina Faso, Burundi, The Gambia, Haiti, and São Tomé and Principe.
20. The IFIs covered in this section include the International Monetary Fund, the World Bank Group, and the four big regional development banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, and Inter-American Development Bank).
21. Data for general infrastructure include funds and investments through financial intermediaries that have infrastructure objectives; data for "other projects" include chemicals and mining.
22. The first, with the China Exim Bank, signed at the annual meeting, will promote cofinancing and collaboration on infrastructure, trade finance, and other sectors hit in the crisis. The second, with the China Development Bank, aims to cofinance projects in infrastructure with or without a sovereign guarantee. In addition, the Bank of China has agreed to sign a cofinancing agreement with the IDB by the end of June.
23. An example of how the World Bank Group is leveraging its balance sheet in a non-traditional way can be seen in the design of the financial support to Indonesia to help access capital markets. The Bank extended the government a $2 billion Development Policy Loan–Deferred Drawdown Option, which formed the core of a larger $5 billion standby package, with additional commitments from the ADB, Japan, and Australia. The mechanism allowed Indonesia to raise private funds in subsequent issues under difficult market conditions at 5- and 10-year maturities.
24. The World Bank Group has programs that provide partial risk guarantees to mitigate risk for private lenders (and sponsors) to private participation in infrastructure projects and partial credit guarantees for debt issuance by sovereign (or subsovereign) entities.

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APPENDIX Classification of economies by region and income, fiscal 2010

East Asia and Pacific

Economy	Income group
American Samoa	UMC
Cambodia	LIC
China	LMC
Fiji	UMC
Indonesia	LMC
Kiribati	LMC
Korea, Dem. People's Rep.	LIC
Lao PDR	LIC
Malaysia	UMC
Marshall Islands	LMC
Micronesia, Fed. Sts.	LMC
Mongolia	LMC
Myanmar	LIC
Palau	UMC
Papua New Guinea	LMC
Philippines	LMC
Samoa	LMC
Solomon Islands	LMC
Thailand	LMC
Timor-Leste	LMC
Tonga	LMC
Vanuatu	LMC
Vietnam	LIC

Europe and Central Asia

Economy	Income group
Albania	LMC
Armenia	LMC
Azerbaijan	LMC
Belarus	UMC
Bosnia and Herzegovina	UMC
Bulgaria	UMC
Georgia	LMC
Kazakhstan	UMC
Kosovo	LMC
Kyrgyz Republic	LIC
Latvia	UMC
Lithuania	UMC
Macedonia, FYR	UMC
Moldova	LMC
Montenegro	UMC
Poland	UMC
Romania	UMC
Russian Federation	UMC
Serbia	UMC
Tajikistan	LIC
Turkey	UMC
Turkmenistan	LMC
Ukraine	LMC
Uzbekistan	LIC

Latin America and the Caribbean

Economy	Income group
Argentina	UMC
Belize	LMC
Bolivia	LMC
Brazil	UMC
Chile	UMC
Colombia	UMC
Costa Rica	UMC
Cuba	UMC
Dominica	UMC
Dominican Republic	UMC
Ecuador	LMC
El Salvador	LMC
Grenada	UMC
Guatemala	LMC
Guyana	LMC
Haiti	LIC
Honduras	LMC
Jamaica	UMC
Mexico	UMC
Nicaragua	LMC
Panama	UMC
Paraguay	LMC
Peru	UMC
St. Kitts and Nevis	UMC
St. Lucia	UMC
St. Vincent and the Grenadines	UMC
Suriname	UMC
Uruguay	UMC
Venezuela, R. B. de	UMC

Middle East and North Africa

Economy	Income group
Algeria	UMC
Djibouti	LMC
Egypt, Arab Rep.	LMC
Iran, Islamic Rep.	LMC
Iraq	LMC
Jordan	LMC
Lebanon	UMC
Libya	UMC
Morocco	LMC
Syrian Arab Rep.	LMC
Tunisia	LMC
West Bank and Gaza	LMC
Yemen, Rep.	LIC

South Asia

Economy	Income group
Afghanistan	LIC
Bangladesh	LIC
Bhutan	LMC
India	LMC
Maldives	LMC
Nepal	LIC
Pakistan	LMC
Sri Lanka	LMC

Sub-Saharan Africa

Economy	Income group
Angola	LMC
Benin	LIC
Botswana	UMC
Burkina Faso	LIC
Burundi	LIC
Cameroon	LMC
Cape Verde	LMC
Central African Republic	LIC
Chad	LIC
Comoros	LIC
Congo, Dem. Rep.	LIC
Congo, Rep.	LMC
Côte d'Ivoire	LMC
Eritrea	LIC
Ethiopia	LIC
Gabon	UMC
Gambia, The	LIC
Ghana	LIC
Guinea	LIC
Guinea-Bissau	LIC
Kenya	LIC
Lesotho	LMC
Liberia	LIC
Madagascar	LIC
Malawi	LIC
Mali	LIC
Mauritania	LIC
Mauritius	UMC
Mayotte	UMC
Mozambique	LIC
Namibia	UMC
Niger	LIC
Nigeria	LMC
Rwanda	LIC
São Tomé and Principe	LMC
Senegal	LIC
Seychelles	UMC
Sierra Leone	LIC
Somalia	LIC
South Africa	UMC
Sudan	LMC
Swaziland	LMC
Tanzania	LIC
Togo	LIC
Uganda	LIC
Zambia	LIC
Zimbabwe	LIC

High-income OECD economies

Australia
Austria
Belgium
Canada
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Japan
Korea, Rep.
Luxembourg
Netherlands
New Zealand
Norway
Portugal
Slovak Republic
Spain
Sweden
Switzerland
United Kingdom
United States

Other high-income economies

Andorra
Antigua and Barbuda
Aruba
Bahamas, The
Bahrain
Barbados
Bermuda
Brunei Darussalam
Cayman Islands
Channel Islands
Croatia
Cyprus
Equatorial Guinea
Estonia
Faeroe Islands
French Polynesia
Greenland
Guam
Hong Kong, China
Isle of Man
Israel
Kuwait
Liechtenstein
Macao, China
Malta
Monaco
Netherlands Antilles
New Caledonia
Northern Mariana Islands
Oman
Puerto Rico
Qatar
San Marino
Saudi Arabia
Singapore
Slovenia
Taiwan, China
Trinidad and Tobago
United Arab Emirates
Virgin Islands (U.S.)

Source: World Bank data.
Note: This table classifies all World Bank member economies and all other economies with populations of more than 30,000. Economies are divided among income groups according to 2008 GNI per capita, calculated using the World Bank Atlas method. The groups are low income (LIC), $975 or less; lower middle income (LMC), $976–3,855; upper middle income (UMC), $3,856–11,905; and high income, $11,906 or more.

ECO-AUDIT

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What is the human cost of the global economic crisis? This year's *Global Monitoring Report, The MDGs after the Crisis,* examines the impact of the worst recession since the Great Depression on poverty and human development outcomes in developing countries. Although the recovery is under way, the impact of the crisis will be lasting and immeasurable. The impressive precrisis progress in poverty reduction will slow. No household in developing countries is immune. Gaps will persist to 2020. In 2015, 20 million more people in Sub-Saharan Africa and 53 million more people globally will be in extreme poverty. Even households above the $1.25-a-day poverty line in higher-income developing countries are coping by buying cheaper food, delaying other purchases, reducing visits to doctors, working longer hours, or taking multiple jobs.

The crisis will also have serious costs on human development indicators:

- 1.2 million more children under age five and 265,000 more infants will die between 2009 and 2015.
- 350,000 more students will not complete primary education in 2015.
- 100 million fewer people will have access to safe drinking water in 2015.

History tells us that if we let the recovery slide and allow the crisis to lead to widespread domestic policy failures and institutional breakdowns in poor countries, the negative impact on human development outcomes, especially on children and women, will be disastrous.

The international financial institutions and international community responded strongly and quickly to the crisis, but more is needed to sustain the recovery and regain the momentum in achieving the Millennium Development Goals (MDGs). Developing countries will also need to implement significant policy reforms and strengthen institutions to improve the efficiency of service delivery in the face of fiscal constraints. Unlike previous crises, however, this one was not caused by domestic policy failure in developing countries. So better development outcomes will also hinge on a rapid global economic recovery that improves export conditions, terms-of-trade, and affordable capital flows—as well as meeting aid commitments to low-income countries.

Global Monitoring Report 2010, seventh in this annual series, is prepared jointly by the World Bank and the International Monetary Fund. It provides a development perspective on the global economic crisis and assesses the impact on developing countries—their growth, poverty reduction, and other MDGs. Finally, it sets out priorities for policy responses, both by developing countries and by the international community.

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