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New Risks from Global Crisis Create Development Emergency, Say IMF, World Bank

The global financial crisis is imperiling attainment of the 2015 Millennium Development Goals (MDGs) and creating an emergency for development, warned an IMF-World Bank report released today. Most of the eight globally agreed goals are unlikely to be met, including those related to hunger, child and maternal mortality, education, and progress in combating HIV/AIDS, malaria and other major diseases.

The Global Monitoring Report 2009: A Development Emergency (GMR) warns that, although the first goal of halving extreme poverty by 2015 from its 1990 level is still reachable based on current projections, risks abound. Indeed, new estimates show that more than half of all developing countries could experience a rise in the number of extreme poor in 2009. This proportion is likely to be still higher among low-income countries and countries in Sub-Saharan Africa—two-thirds and three-quarters, respectively.

It is estimated that an additional 55 to 90 million people will be trapped in extreme poverty in 2009 due to the worldwide recession. The number of chronically hungry people is expected to climb to over 1 billion this year, reversing gains in fighting malnutrition and making the need to invest in agriculture especially urgent.

"With simultaneous recessions striking all major regions, the likelihood of painfully slow recoveries in many countries is very real, making the fight against poverty more challenging and more urgent," said John Lipsky, IMF First Deputy Managing Director.

The crisis will affect all developing countries over the next two years, through contracting export volumes, lower prices, slowing domestic demand, declining remittances and foreign investment, reduced access to financing, and shrinking revenues. Developing world growth is projected to fall to 1.6 percent in 2009, from an average of 8.1 percent in 2006-07, according to new IMF projections. Global output, meanwhile, is projected to contract by 1.3percent this year.

"Worldwide, we have an enormous loss of wealth and financial stability," said Justin Yifu Lin, World Bank Chief Economist. "Millions more people will lose their jobs in 2009, and

urgent funding must be provided for social safety nets, infrastructure, and small businesses in poor countries, for a sustainable recovery."

The GMR cautions that, while the crisis calls for a special focus on social protection programs and services that shield poor and vulnerable people from immediate hardship, it is also vital to speed up progress toward the human development goals, particularly those related to health where prospects are gravest.

"The crisis calls for a reaffirmation of the world's commitment to the promise of the MDGs and it gives added urgency to reinforcing key programs in health and education, such as control of major diseases including HIV/AIDS and malaria, health systems strengthening, and the Fast Track Initiative in education," said Zia Qureshi, lead author of the report and World Bank advisor.

Scaling Up to Cope With a Development Emergency – Fast Facts

- Net private capital flows to developing countries are in steep decline and could be more than US$700 billion lower in 2009 compared to their 2007 peak.

- To fill the growing financing gaps in developing countries, G-20 leaders agreed on April 2, 2009 to support a tripling of resources for the IMF to US$750 billion. They also supported a general SDR allocation equivalent to US$250 billion, US$100 billion of which will go directly to developing countries (US$19 billion to low-income countries). The IMF's concessional lending capacity for poor countries will be doubled.

- The G-20 supported an increase in multilateral development bank (MDB) lending of US$100 billion to a total of US$300 billion over the next three years. They will support the World Bank's Vulnerability Framework, which funds infrastructure projects, safety nets programs, and financing for small and medium enterprises.

  Official aid from the OECD's Development Assistance Committee members rose by about 10 percent in real terms in 2008. This follows aid declines in 2006 and 2007. While the rise last year was welcome, aid in 2008 was still about US$29 billion short of the Gleneagles target of US$130 billion per annum by 2010, and aid to Sub-Saharan Africa was about US$20 billion short of the 2010 target of US$50 billion per annum.

- The number of people living on under US$1.25/day in the developing world in 2005 was 1.375 billion, or 25percent of the population. The MDG target is to halve the 1990 poverty rate (41.7 percent) to 20.9percent by 2015. With extreme poverty projected to fall to 15percent by 2015, it still appears the target will be met, but this may change as the poverty reduction rate slows with declining growth. Sub-Saharan Africa will not meet MDG1.

- Efforts to meet the health and education MDG targets must include strengthened social safety nets, more donor support, more efficient spending, and better leveraging of and involvement by the private sector. In Sub-Saharan Africa and South Asia, half of MDG-

related maternal, reproductive, and child health service provision is supplied by private entities (including civil society organizations). In South Asia, 30 percent of primary and secondary education is delivered by private institutions.

- Developing countries need about US$900 billion (7-9percent of their GDP) a year to maintain infrastructure and start new projects, yet only half this amount is actually spent. The funding gap for new infrastructure projects has risen by about US$20 billion a year as prospects for private sector financing recede. In response, the World Bank is launching a new Infrastructure Recovery and Assets (INFRA) platform which could provide at least US$15 billion per year over the next three years, to help developing countries and provide the foundation for rapid recovery from the global economic crisis.

- To stabilize greenhouse gas atmospheric concentrations, the latest estimates suggest that additional investment to combat climate change required in developing countries will range from US$150 billion to US$200 billion per year over 2010-20 and will rise to US$400 billion per year on average beyond 2020.

- Firm resolve is needed to follow through on the G-20 promise to refrain from protectionism, given that several G20 members failed to adhere to their November 2008 commitment.

- The crunch in international trade finance will be addressed through the April 2009 G-20 agreement to ensure the availability of at least US$250 billion of trade finance over the next two years through their export credit and investment agencies, and through the MDBs, including up to US$50 billion of trade liquidity support over the next three years through the IFC's Global Trade Liquidity Pool.