**Joy Phumaphi, Vice President, Human Development Network,
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"Current Developments in the World Economy"

Good afternoon ladies and gentlemen, and to my distinguished fellow panelists…

We meet here at ECOSOC at a time of deep global economic recession and financial-market fragility. The world faces a contraction in GDP of 2.9% this year, unemployment is soaring in the high-income countries and private capital flows are shrinking at a rate never seen before. While we project a modest recovery next year, we confront many risks and must hope that a rebound in domestic demand in developing countries helps pull the world out of the doldrums.

I will focus my remarks on two main points.

First, the global credit crunch, in combination with uncertainty about future demand, has delayed investment and severely reduced demand for durable goods. As a result, global trade and output has plummeted; world industrial production has fallen 15 percent over the six months since the financial crisis intensified with the failure of Lehman Brothers investment bank..

While GDP growth in developing countries is expected to remain positive this year, the reality is that, when China and India are omitted, GDP in the remaining developing countries is project to fall 1.6%.

The slowdown in economic growth and much weaker capital flows has intensified financing pressures on many developing countries, with their overall financing gap viewed to range from $350 to $635 billion in 2009.

Second, while initially cushioned from the direct impact of the financial crisis, low-income developing countries are now being affected as the crisis impacts have spread through other channels. Our projections suggest that net private capital flows will not be enough to meet the external financing needs of many of low-income countries, while the prospects for large increases in other sources of financing are poor.

For example, the bulk of new commitments by international financial institutions will go to middle-income countries; and remittance flows to low-income countries are projected to fall by 5 percent in 2009. Without substantial increases in official finance, many low-income countries may be confronted with serious implications for their long-term development and poverty reduction.

While preliminary data from the OECD DAC suggests total official development assistance from DAC members rose to a record of $120 billion in 2008, we need to go much further during this period of global downturn to support growth and protect the poor and vulnerable.

On top of the crisis, the deadline for the Millennium Development Goals is six short years away in 2015. Strong economic growth in developing countries in the past decade had put the MDG for poverty reduction (halving the proportion of extreme poor in the population between 1990 and 2015) within reach at the global level. But projected economic growth in developing countries is now on average only about a third of that forecast before the onset of the financial crisis. Past trends show that a decline in the average GDP growth rate in developing countries by one percentage point can trap as many as 20 million more people in extreme poverty.

Experience from the East Asia crisis and others has shown that failure to protect existing infrastructure during economic downturns can be very costly, resulting in substantially higher capital spending in the longer term. Moreover, with many low income countries already off track on most of the human development MDGs, the global crisis threatens further setbacks.

While progress towards the MDGs will likely resume when growth recovers, achievement of the goals will be further delayed. The long-run implications of the crisis for human development outcomes may be more severe than those observed in the short run.

When poor households withdraw their children from school, there is a significant risk that they will not return once the crisis is over, or that they will not be able to recover the learning gaps resulting from lack of attendance. And the decline in nutritional and health status among children who suffer from reduced (or lower-quality) food consumption can be irreversible, retarding their growth and cognitive and learning abilities.

According to a recent Bank study— ***Averting a Human Crisis During the Global Downturn: Policy Options from the World Bank's Human Development Network***—23 countries depend on foreign aid for more than 30% of their total health spending and that maintaining donor aid flows during a crisis is urgent in order to safeguard health services. In Rwanda and Ethiopia, foreign aid donors subsidize more than 50% of total government budgeted health spending. Governments have used this aid to expand their health services but they are highly dependent on uninterrupted aid flows aid to keep health services available to people, especially the poorest and most vulnerable groups.

The ability therefore of the development community to recognize and respond to the needs and interests of poor countries is essential to prevent the unraveling of their hard-won development gains of previous decades; and also to help as many countries as possible achieve the transformational promise of their MDGS.

We donors also have to demonstrate that we too are accountable for the substantial pledges of new aid made during recent G-8 summits. We also need to champion our side of the development bargain by embracing greater policy coherence and coordination, better alignment and harmonization in order to equip countries to strategically manage resources, especially during these troubling times in the global economy

There is a growing risk of increased fragmentation and compartmentalization within countries and among external partners, making it vital to ensure that new initiatives are coherent with the agreed country and results-based approach to development assistance and with the Paris Declaration and the Accra Agenda for Action, reinforcing rather than undermining domestic processes and systems.

Looking ahead to the rest of 2009, developing countries will most likely face a dismal financing climate. In 97 of 108 developing countries for which data are available, the total financing needs in 2009 are estimated to be $1.1 trillion, $700 billion higher than in 2003 (in constant 2009 prices). The ratio of financing needs to GDP for the 97 countries is estimated at 7.8 percent, up from 6.2 percent in 2006.

Although extraordinary policy responses by governments have helped save the global financial system from collapse, they have not, thus far, closed the negative feedback loop between financial instability and economic recession. Fragile consumer confidence and a much-diminished appetite for risk among investors have all contributed to a plunge in global aggregate demand. Simultaneously, the deepening economic recession has caused major global banks to scale back domestic and international lending, thereby making the credit crunch worse.

In charting the course ahead, policy makers in developed and developing countries should consider three priorities, namely: (i) following up on the G-20's promise to restore domestic lending and the international flow of capital; (ii) addressing the external financing needs of emerging market sovereign and corporate borrowers; (iii) and reaffirming preexisting aid commitments and the Millennium Development Goals (MDGs).

For its part, the World Bank Group has stepped up its help to middle and low-income countries to help them navigate their way through the worst of global crisis. We have committed $58.8 billion in fiscal year 2009 to help countries struggling amid the global economic crisis, a 54 percent increase over the previous fiscal year and a record high for the global development institution.

Commitments from the International Development Association (IDA), which provides interest-free loans and grants to the world's 79 poorest countries, totaled a record $14 billion in FY09, up 25 percent from FY08. To rapidly support countries affected by the crisis, $990 million of this lending was provided under an IDA Fast-Track facility.

Let me conclude by saying that three years ago, the developing world was experiencing its most rapid economic growth in four decades. Now it is struggling to contain a global financial crisis for which it bears no responsibility. Consequently, it will be very important for us this week to send a message of hope from ECOSCO here in Geneva to low-income countries that we will honor our aid pledges and where possible, step up to do more; that we will embrace our commitments to better alignment and coordination under the banner of aid effectiveness; and that despite the crisis, we will re-dedicate ourselves to achieving the 2015 MDGs.

And let us also hope that G-8 leaders meeting in Italy later this week will also send the message that although they too face the first global contraction in output since World War 2, they have not forgotten the plight of poor countries worldwide, and will rally resources to invest in their growth and development.

Thank you...