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Policy Dialogue 4: Impact of Multiple Crises: Allocating Resources Among Competing Needs

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In this session, we are being asked to comment on how aid should be allocated among multiple crises. Two particular crises stand out in terms of broad impact across the developing world – the global financial crisis that emerged in late 2007, and the rapid spiraling of food and fuel costs during the preceding year.

Several years have now passed since we first witnessed skyrocketing food and fuel prices, shortly followed by extremely serious manifestations of a global financial crisis. Global economic growth fell a full six percentage points from its pre-crisis peak to the bottom hit in 2009, which was the most severe reduction in growth since the Second World War.[1] Many of us feared that these back-to-back punches taken by the global economy would most cruelly harm the world's most vulnerable. Indeed, it was about a year ago that the United Nations convened its Conference on the World Financial and Economic Crisis and Its Impact on Development.

The world economy is still recovering from this unprecedented period of economic turmoil, and this recovery will be a fragile one for some time to come. The major risks ahead of us over the near and medium term relate to how the advanced countries manage their fiscal

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[1] International Monetary Fund, Strategy, Policy, and Review Department, "**How Did Emerging Markets Cope in the Crisis?**" June 15, 2010, p. 4..

balances and indebtedness. We are now in a position, however, to take stock of lessons learned from the crisis and examine their implications for future directions for ODA.

As was noted last time we met, and in many other global meetings, the recent financial crisis had its roots in the advanced economies. Nevertheless, the crisis was felt in many low-income countries. These impacts largely derived from reductions in demand, investment flows, trade opportunities and remittances from the advanced economies. For that reason, the United States and other advanced economies rapidly took urgent domestic policy measures to restore confidence in global financial markets and reactivate output and employment. A strong coordinated international policy response also restored order to global financial markets, helped preserve the availability of trade finance and mobilized expanded resources for IMF, World Bank and regional development bank lending for affected emerging market and developing countries.

All of these measures helped keep the worst from happening. More importantly, this rapid and coordinated action contributed to a shallower dip and more decisive recovery for most developing and emerging market countries than what had been pessimistically expected when the crisis first materialized. The World Bank has recently projected that the developing economies are projected to grow on average by about six percent annually from 2010 through 2012, nearly double the expected overall global growth rate.[2]

Out of this experience, important lessons have been learned about resilience to crisis, particularly for the developing countries. Most striking is evidence that countries which entered the crisis with sound macroeconomic management, a bank of international reserves and the fiscal headroom to expand social spending were able to protect their populations from the worst

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[2] World Bank, Recovery at the Crossroads: Role and Implications for Developing Countries, June 2010, p. 3.

impacts of the global slowdown. Many countries fit this category, and this fact represents a key unheralded success of the developing world in recent years. By contrast, countries that confronted the crisis with fiscal imbalances were less able to cope. I would go even farther to say that this same responsible macro management also served to help keep foreign investors interested in developing country markets despite eroding global conditions, and helped maintain access to international capital.

The second important lesson was that countries with institutionalized safety net programs in place were better able to cope than ones that rely on ad hoc arrangements with donors and international voluntary organizations. This lesson is an important one for donor countries and multilateral lenders to take on board – rather than emphasizing our own capacity to respond to global crisis, we need to make it a priority to assist countries to strengthen safety nets, before the next major crisis emerges.

The third lesson is most closely linked to the question we are discussing today. What is the role of ODA in responding to complex financial crises? In the case of the global financial crisis, current ODA programs – particularly those focused on long-term development – were not the most effective tools for addressing the short-term impacts of the crisis, although past aid may have been important in helping countries to be better prepared and more resilient coming into the crisis. In the short term, it seems, and we will have more insights as additional time passes, that the most important factors were tools that served to protect the full range of financial flows that have come to be so important to developing countries' economic health in today's globalized world. G-8 and G-20 actions to calm down and better regulate global financial markets, discourage protectionism, maintain trade finance, and facilitate access to economic stabilization funds through the IMF and other mechanisms, mitigated potential harm to the developing world. Targeted financial guarantees, such as those provided by the International Finance Corporation and USAID's Development Credit programs, may have helped sustain financial flows by reducing short-term perceptions at risk.

This is not to say that ODA is irrelevant as we emerge from the crisis and struggle to restore economic growth. Indeed, the U.S> has increased our development assistance funding despite the crisis, and we hope other countries will also honor their ODA commitments even in these challenging economic times. I will now make some brief comments regarding the donor response to the earlier crisis, rapidly rising food prices, for which ODA will play a more central role as we mobilize a global response to the urgent problem of hunger.

The spiralling food prices we experienced earlier in this decade engendered fear and hardship throughout the world, but most especially for the poorest and most vulnerable. The world's eyes were opened to the spectre that decades of development progress – in health, in education, in poverty reduction – were at risk from the simple fact that more and more families were unable to feed themselves. The global slowdown temporarily reversed the trend toward rising prices but exacerbated poverty and unemployment throughout the world. The global community was facing an unprecedented threat to development progress.

At the March 2009 G-20 meeting, President Obama pledged to double the U.S. Government's support for global agriculture. Last summer in L'Aquila, Italy, he asked the other members of the G-8 to join the United States in fighting global hunger. More than $22 billion was pledged at L'Aquila, including $3.5 billion from the U.S. The United States has elevated global food security to become one of our principal foreign policy objectives, including within our foreign assistance budgets. Our fiscal year 2010 foreign assistance budget for agriculture contains a significant increase over recent years.

There is worry that the economic slowdown will result in cuts to ODA. While budget scenarios may be difficult, support for development in the United States remains significant. The American public, as in other countries, can be counted upon to contribute to efforts to reduce the worst manifestations of global poverty and hunger. All of our taxpayers will expect us to be efficient and careful in this task, so that every dollar counts, especially in these difficult economic times.

For this reason, it is vitally important that our efforts to reduce global hunger are guided by the Rome principles agreed upon at L'Aquila, namely that we invest in country-owned plans, strengthen strategic coordination, ensure a comprehensive approach, leverage the benefits of multilateral institutions, and deliver on sustained and accountable commitments. The United States takes these principles seriously. For example, in April, the United States joined the governments of Canada, Spain, and South Korea and the Bill and Melinda Gates Foundation to pledge $880 million to launch the Global Agriculture and Food Security Program (GAFSP), a multi-donor trust fund designed to provide an additional source of financing to support country-led efforts to improve food security and strengthen agricultural sectors in the poorest countries. The GAFSP has already issued an open call for proposals from eligible countries, and the first five grants – to Bangladesh, Haiti, Rwanda, Sierra Leone and Togo- were just announced.

The U.S. has also identified priority countries for Feed the Future, is supporting their country-led planning processes and is developing a research strategy, in a whole of government effort closely coordinated with the international community.

Looking toward the future, it is clear that global demands on ODA budgets will remain strong, and we all must continue to relentlessly look for efficiencies, coordinate better and energetically pursue the aid effectiveness agenda. We must live up to our commitments, and track our follow-through for major initiatives such as food security and global climate change. We must document and share the results and accomplishments of this assistance. Moreover, we must use all tools at hand to encourage inclusive economic growth in developing countries – both to reduce poverty and to facilitate domestic revenue mobilization to pay for better social services and safety nets. As we saw with the global financial crisis, the toolkit to advance global growth is quite diverse and ODA is not the main driver. For example, private investment will be essential for global food security objectives to be accomplished. Without inclusive growth, the world will find it difficult to meet the Millennium Development Goals, eliminate hunger and combat poverty, objectives we all share.

Thank you.