

Global Financial Crisis Discussion Series

Paper 11: Donor responses to the global financial crisis – a stock take

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Global Financial Crisis Discussion Series

**Donor responses to the global financial crisis:
A stock take¹**

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Executive summary

This paper maps out the response to date of a selection of bilateral and multilateral donors, in terms of their progress against various parameters such as aid commitments, new policies, use of and improvements in existing instruments and suggestions for new shock facilities. The approach is to distinguish between bilateral aid responses and responses in relation to the international system, including the international financial institutions (IFIs). The research is based on a brief survey of donors, official documents and websites. The Organisation for Economic Co-operation and Development (OECD) is aiming to repeat its stock take of donor responses by the end of the year (following a meeting in May this year).

We consider a number of issues when examining donor responses. The scope of donor responses includes changes to **aid volumes**, new **aid instruments** and **reprogramming** of aid programmes. The constraints include exchange rate changes, gross domestic product (GDP) changes and changes in debt levels, partnerships and fixed agreements. Donors adapt their aid programmes and policies regularly in response to many factors, and the global financial crisis is only one factor in this. It is also important to consider changes to aid plans that have been in the pipeline and to construct a counterfactual against which to compare new announcements.

It is very difficult to determine whether or not a donor response can be attributed to the global financial crisis. A simple before/after comparison may not always bring out the 'response', although it could be that a new policy or announcement which has been in the planning for some time can also be seen as a response to the global financial crisis. Several Aid for Trade (Aft) and social protection measures may fit this description. The debate on how donors should respond is not straightforward, and includes sometimes mutually inconsistent arguments such as: Global crises require **global responses**; **Predictability of aid** is crucial for effective planning in developing countries; **Sufficient flexibility** to changes in conditions is required, with speedy and frontloaded disbursements. And sufficient **control over content** of aid programmes and type of recipients.

We cover responses by several multilateral bodies, such as the IFIs, regional development banks (RDBs) and the European Commission (EC). It is fair to say that the multilaterals have been very active in responding to the crisis. The **International Monetary Fund** (IMF) has responded quickly to the crisis, increasing its lending to low-income countries from \$1.2 billion in 2008 to an expected \$4 billion this and next year. However, the IMF can provide only about 2% of low-income countries' (gross) external financing needs. The G-20 has trebled its lending capacity to \$750 billion, much of which is going to middle-income countries. There are ongoing discussions about governance reforms and also about how future lending could be funded (including the concessional part and for the future, as countries will need to repay after five years). Conditionalities have tended to decrease and the content of conditionalities has changed.

The **World Bank's** International Bank for Reconstruction and Development (IBRD) has trebled its lending from \$13 billion to \$35 billion, spending an estimated \$100 billion over three years. The International Development Association (IDA) may also frontload some \$2 billion for its fast track facility (for safety nets, infrastructure, education and health), but few bilateral donors have so far supported the proposed vulnerability framework, which poses a question as to whether the whole of the IDA should have one specific crisis facility. The International Finance Corporation (IFC) has doubled its global trade finance programme to \$3 billion. **RDBs** have increased lending and several have received capital endowments.

The **EC** has acted more quickly than some bilateral donors by issuing a new Communication, but it remains to be seen how Member States will support these proposals. This would frontload the €1 billion food facility, double the outlays for the European Union (EU)-Africa Infrastructure Trust Fund, provide €500 million via FLEX (the EU instrument to compensate African, Caribbean and Pacific (ACP)

countries for short-term fluctuations in export earnings) and frontload €3 billion in budget support (72% of the total amount of expected budget support for ACP countries) to safeguard social expenses.

There are four ways to describe bilateral responses:

- **Aid volumes.** Some countries have cut their aid spending, e.g. Italy by 56% and Ireland by 24%, leading to cuts in their ODA/GNI (official development assistance/gross national income) ratios. Other countries are sticking by their (high) ODA/GNI levels (Denmark, the Netherlands), which implies cuts to planned ODA, e.g. by €600 million (or 11%) in the case of the Netherlands. There are also countries where aid is increasing, such as in the UK, with both volumes and ODA/GNI ratios increasing. Japan and China might increase their aid significantly.
- **Aid programming.** Some countries are changing the allocation of aid across countries owing to the crisis (e.g. the Netherlands). It is not clear whether countries are changing their within-country programmes. Others report that they have not made major changes (Germany). Some are increasing their relative spending through the multilateral channels (the Netherlands, and probably Norway)
- **New initiatives.** Bilaterals support new, often multilateral, initiatives for the IMF, the World Bank's vulnerability fund (e.g. Germany) and increased spending to social protection (Australia), infrastructure or growth (Japan). There does not appear to be an overall bias and the donor interest in certain areas may prevail.
- **Other issues.** Many donors are actively reassessing their aid allocations, e.g. in Australia through a Global Recession Taskforce, are doing vulnerability assessments (e.g. UK, Denmark) and have launched White Papers (e.g. UK).

Overall, it seems that donors are reacting but in different ways. Multilateral response has been quick, but some bilaterals have also responded, some by cutting aid, others by reprogramming within and across countries and towards multilateral channels. Several donors choose to support social spending.

1. Introduction

The global financial and economic crisis has already had major effects on developing countries. This paper examines whether this crisis has coincided with new responses by bilateral donor agencies in terms of their own programmes and the way they advocate changes in the international institutions, such as the international financial institutions (IFIs), regional development banks (RDBs), United Nations (UN) and European Commission (EC), and by multilateral institutions themselves.

The recent London G-20 leaders' meeting and Call to Action for rich countries to both honour existing official development assistance (ODA) commitments and pledge additional resources demonstrate high-level political commitment to providing more help to poor countries to weather the crisis.

Donors choose where and how to channel additional resources using existing mechanisms: as bilateral aid; through UN agencies such as the World Food Programme (WFP), the Food and Agriculture Organization (FAO) or the UN Children's Fund (UNICEF); through the World Bank Group and other multilateral development banks; or through non-governmental organisations (NGOs). There is also recognition that funds need to be disbursed quickly, provided in grant form or on highly concessional terms and without additional policy conditions.

While the choices are clear, it is not entirely clear what the responses have been so far, as it is difficult to distinguish between genuinely new and previously announced initiatives.

This paper is structured as follows: Section 2 looks at issues to take into account when considering donors' response to the crisis; Section 3 presents multilateral donor responses; Section 4 deals with bilateral donor responses; and Section 5 provides a discussion.

2. Responding to the crisis: Issues for donors

This paper maps out the response to date of a selection of bilateral and multilateral donors, in terms of their progress against various parameters such as aid commitments, new policies, use of and improvements in existing instruments and suggestions for new shock facilities. The approach is to distinguish between bilateral aid responses and responses in relation to the international system, including the IFIs.

We need to consider the following issues when examining donor responses:

- What is the scope of and what are the constraints to donor responses?
- What are donors doing anyway?
- What changes are attributable to the global financial crisis?
- What should happen?

2.1 Scope and constraints of donor responses

Bilateral donors have a choice over their aid allocation but this is constrained by various factors. The scope in donor responses includes choices about:

- **Aid volumes**
- **Aid programming**
 - Bilateral versus multilateral spending
 - Multilaterally: choice among International Monetary Fund (IMF), World Bank, RDBs, UN and EC
 - Bilaterally: choice between countries affected by the crisis and other countries; or poor countries vs. richer countries
 - Bilaterally: choice among aid purposes within countries (social protection, health, education, growth, infrastructure)
- **Aid instruments:** new instruments by the World Bank or bilaterally

Further, donors can advocate **changes in development-related policy** (e.g. promote equity, better financial regulation, better trade rules, etc) as a result of the crisis.

But donor responses are also constrained (for planned or unforeseen reasons):

- External factors, such as exchange rates effects, which have impacts on how much they contribute to IFIs or the European Union (EU), or changes in gross domestic product (GDP) which affect those donors that have an aid budget fixed in proportion to GDP;
- Increasing government debt levels and needs to cut expenditure;
- Partnerships with developing countries also affect aid programming, e.g. in the case of the EC and the African, Caribbean and Pacific (ACP) countries;
- Donors engage in long-term commitments to programmes and funds which cannot be easily changed.

2.2 What donors are doing anyway

Donors adapt their aid programmes and policies regularly in response to many factors, and the global financial crisis is only one factor in this. But it is important to consider changes that have been in the pipeline and to construct a counterfactual against which to compare new announcements.

Aid projections: Donors committed aid increases at the 2005 Gleneagles summit, and one view could be to examine current plans against those plans (planned increase) rather than against previous years.

New initiatives: Donors decided to start new initiatives before the crisis broke but these may be coming in only now. For example, the food price crisis resulted in a great deal of attention and in funding commitments at the G-8 meeting in Italy in July 2009 for a food security response, but this cannot be seen as a response to the global financial crisis. Similarly, announcements on Aid for Trade (Aft) and social protection have been in the pipeline for some time.

Plans for **governance reform** of the IFIs have been on the table for a long time. While there have been some notable responses by the IFIs, but not all of these owe to the global financial crisis.

2.3 Changes attributable to the global financial crisis

It is therefore very difficult to determine whether a donor response can be attributed to the global financial crisis or not. A simple before/after comparison may not always bring out the 'response', although it could be that a new policy or announcement which has been in the planning for some time can be seen as a response to the global financial crisis. Aft and social protection measures may fit this description.

On the other hand, a no-change in policy or aid announcements could be interpreted by some as a no-response, whereas in fact this could conceal a response when the counterfactual would have been cuts in aid budgets.

Some donors have prepared new policy statements, such as White Papers in the UK and Australia.

The Organisation for Economic Co-operation and Development (OECD) has analysed expected future aid flows for 2009-2010/11 from bilateral (and multilateral) donors on the basis of data available to them in January 2009.² A donor survey included a number of bilateral and multilateral responses to the crisis. Donor-level data are not available, for confidentiality reasons, but recipient-level data are presented.

Budget support allocations for the 13 out of 41 donors that provided in 2008 and 2009 have been 'to a large extent frontloaded', rising 34% in 2008 then expected to fall 7% in 2009, followed by an annual decline of 17% expected in 2010 and 2011. The OECD notes that it was 'not clear whether these reductions are due to short term programming uncertainties and therefore are reversible or whether they reflect a durable impact of the current crisis on donors' aid budgets'.³ In 2009, Africa is expected to receive 80% of reported budget support, the largest recipients of reported budget support being: Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mozambique, Senegal, Tanzania, Uganda, Vietnam and Zambia.

The OECD includes estimates for Country Programmable Aid (CPA) for each recipient country. Compared with 2008 spending in each country (includes some multilateral spending), the largest increases by 2011 for sub-Saharan Africa are for Angola and the Republic of Congo, while spending will fall by almost half in Togo, Mauritius and Liberia.⁴

However, it also notes that, in the short term (2008 to 2009), only highly exposed countries (according to the World Bank definition) in Far East Asia and South and Central Asia are expected to receive more aid, amounting to some \$1.2 billion (mainly India, Pakistan and Vietnam); for the exposed countries in

² OECD-DAC (2009) [*DAC Report on Aid Predictability: Survey on Donors' Forward Spending Plans 2009-2011*](#). Paris: OECD-DAC.

³ Ibid, p24.

⁴ Ibid, Table D.1 (Country Programmable Aid 2008-2011), pp35-40.

sub-Saharan Africa, aid is projected to decline by 1%. This would indicate that the poorest and most vulnerable are receiving the least.

2.4 What should happen?

The debate on what should happen is not straightforward. The following, sometimes mutually inconsistent, arguments are being put forward

- Global crises require global responses. Global solutions need to be found for global challenges, e.g. by providing global public goods. This would imply that the multilateral channel, and issues approaches, is more important than bilateral and country-based approaches.
- Predictability of aid is crucial for effective planning in developing countries. This would imply that donors should not shift resources away from long-term priorities agreed between donors and partner countries.
- Sufficient flexibility to changes in conditions is required, with speedy and frontloaded disbursements. Different countries are affected differently, and new volatilities can lead to new vulnerabilities and new development challenges, both short and long term. This would require a quick response, some would argue through the multilateral channels.
- Flexibilities could in theory be consistent with predictability in the case of budget support (rather than project support). In practice, however, it is not clear how flexible budget support is in terms of following countries' spending priorities.
- Donor countries further feel that they face further trade-offs, e.g. more control over a smaller aid programme (bilateral spending) versus less control over a larger programme (multilateral), or smaller programmes for priority countries versus bigger programme spread over more countries.

3. Donor responses by multilateral institutions

3.1 International Monetary Fund⁵

The IMF has responded quickly, and in a countercyclical way, to the crisis and increased substantially its lending to both low-income countries (LICs) and other developing countries. The IMF estimates that the fiscal stance has eased in 2009 in over 80% of those 30 African countries that have IMF programmes (just under 20% tightened their fiscal stance and the remainder remained the same). Monetary policy is expected to ease in two-thirds of sub-Saharan African countries in 2009 (just about 15% tightened it and the remainder remained the same)⁶. Tanzania and Mozambique are noticeable examples of countries with non-financial programmes that have allowed fiscal deficit widening.

Across sub-Saharan Africa, the fiscal widening is estimated to be 6.1% of GDP in 2009, with country-level variations. The IMF now expects sub-Saharan African growth (44 countries) to go from around 1% in 2009 to around 4% in 2010 (slightly faster for oil-exporting than oil-importing countries).

The IMF is in a better position to provide rapid assistance than bilateral donors tied to budget cycles. Its role is to enable leverage through its loans to plug temporary holes and smooth adjustment. Traditional donors tend to be for permanent resource transfers.

To end July 2009, \$3.1 billion in concessional assistance has been provided (Poverty Reduction Growth Facility (PRGF)/Exogenous Shocks Facility (ESF)). This is almost three times the \$1.2 billion total in 2008. It is expected to reach \$4 billion both this year and in 2010, and \$17 billion by 2014/15 (frontloaded) exceeding the pledge of 'additional concessional lending of \$6 billion in the next 2-3 years' at the April 2009 G-20 Leaders' summit. However, the IMF estimates that it can provide only about 2% of low-income countries' (gross) external financing needs and therefore it stresses the importance for other institutions (e.g. multilateral development banks and bilateral donors) to provide concessional assistance as well.⁷ Almost half of IMF finance in 2009 so far has been through the ESF, the remainder being PRGF commitments or augmentations. There have been fewer new PRGF agreements so far this year (four, compared with nine in all of 2008).

The Special Drawing Rights (SDR) allocation provides \$18 billion to LICs to boost foreign exchange reserves or provide financing relief (less than 8% of the total SDR allocation, although developed countries may yet choose to donate their allocations to developing countries).

The IMF undertook a 'comprehensive reform' of its lending facilities in July 2009, intending to make them more flexible and LIC-focused, to sustain growth for poverty reduction. New facilities reflect greater diversity among LICs (owing mainly to some significant successes, and greater integration into the global economy, although this has proved problematic in this crisis). The new Poverty Reduction and Growth Trust (PRGT) covers three lending facilities (replacing the PRGF-ESF Trust and awaiting final donor approval, possibly at October annual meetings):

- Rapid Credit Facility (RCF): A 'catch-all emergency instrument'. 'Highly flexible' one-off disbursements for urgent cases where there is not enough time to set conditions (or they are infeasible or not needed, e.g. with an exogenous shock);
- Standby Credit Facility (SCF): A Stand-by Arrangement (used by middle-income countries (MICs) but non-concessional) for LICs, available to all members; short-term support for countries 'that no

⁵ See IMF [press release](#), [FAQ](#), [factsheet](#), [background note](#), [survey article](#), [LICs](#).

⁶ For more information see IMF's Regional Economic Outlook: Sub-Saharan Africa. Weathering the Storm (October 2009).

⁷ see Ngaire Woods's on 'The international response to the global crisis and the reform of the international financial and aid architecture', at www.europarl.europa.eu/document/activities/cont/200909/20090917ATT60857/20090917ATT60857EN.pdf.

longer face entrenched problems, but require episodic support' (can be precautionary), replaces ESF (High Access Component);

- Extended Credit Facility (ECF): Medium-term support for countries with 'protracted' balance of payments (BoP) issues, with lower (initially 0%) interest rates, flexible timing, flexible structural conditionality (based on long-term goals) and flexible timescales for extension (up to five years per arrangement). Replaces PRGF.

The non-financial Policy Support Instrument remains 'broadly unchanged', providing policy advice and signaling to countries that do not need IMF financing (it can also 'facilitate access to the SCF').

There is concessional loan interest rate relief on all balances of 0% until end 2011, and thereafter the standard 0.5% interest rate is permanently reduced, potentially to 0% or 0.25% (depending on prevailing interest rates and facility) and reviewed annually: 0-0.5% (ECF/RCF); 0.25-0.75% (SCF); and 0.5% (PRGF).

The conditionality framework has been modernised. The use of structural performance criteria in all IMF-supported programmes, including those for LICs, has been abolished, and time-bound conditions on structural reform have been replaced by structural benchmarks that are monitored in the context of programme review.

A new more flexible approach to external debt limits has been introduced. Taking into account the increasing heterogeneity of LICs and the significant change in their patterns of financing in recent years, the single design of debt limits in Fund-supported programmes has been replaced by a menu of options built looking at two key aspects: the extent of debt vulnerability and the country's macroeconomic and public financial management capacity⁸.

Increased concessional lending will require new resources of SDR10.5 billion through to 2014, (SDR1.5 billion (17% of the total) in subsidy contributions, which should come from a trust and not quota resources, plus SDR9 billion (83%) in loans). So far, subsidies are coming mostly from the IMF's own resources. The IMF has been mobilising bilateral donors for loans, around SDR400 million of the total expected, and subsidy contributions (for loans, possible use of SDRs 'allocated to lenders in the forthcoming general allocation'; for subsidies, 'new bilateral contributions, delaying trust to main account reimbursements, using reserve accounts or proceeds from gold sales').

The IMF has also reformed its non-concessional lending, doubling all IMF members' access to resources, making the Stand-by Arrangement more flexible, and abolishing structural conditions.⁹

MICs have also benefited from the new Flexible Credit Line (FCL). This facility aims to prevent crises in otherwise well-run economies. Where countries meet the criteria, loans can be for six or 12 months in a single amount, either at that time or on a precautionary basis, and recipients do not have to meet any additional policy conditions (unlike with a Stand-by Arrangement). Loans under the FCL until June 2009 total \$78 billion, to Colombia (\$10.5 billion in May 2009), Mexico (\$47 billion in April 2009) and Poland (\$20.6 billion in May 2009).

3.2 World Bank

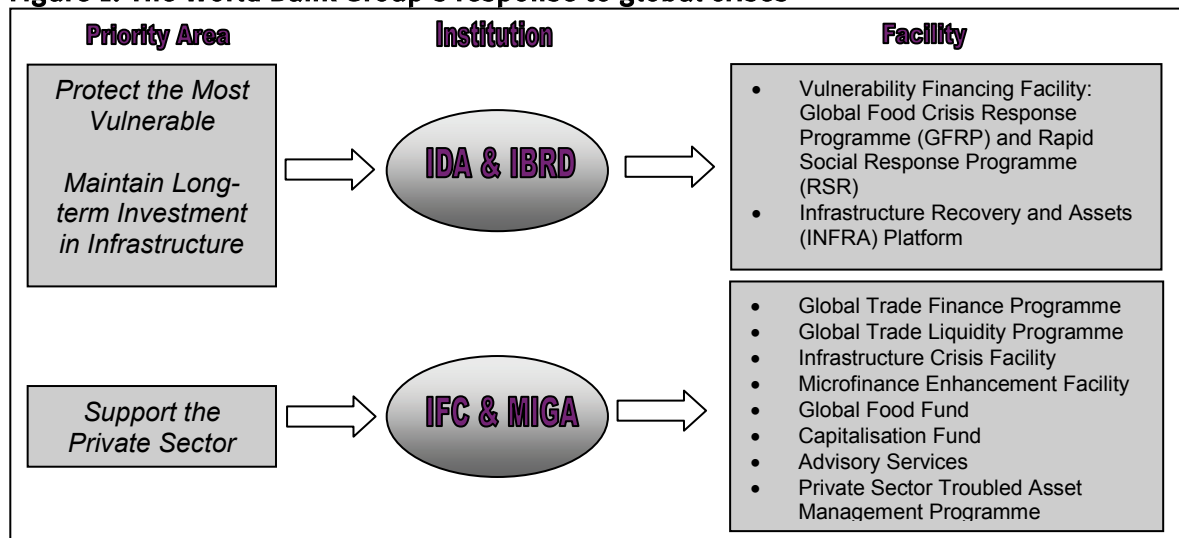
In this section we focus on the response by the World Bank Group (WB) to the global financial crisis. In particular, we focus on the facilities and programmes that the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) have expanded and launched to support LICs and MICs. These facilities relate to three priority areas: safety net programmes to protect

8 For more information, see <http://www.imf.org/external/np/pp/eng/2009/080509.pdf>.

9 For more information, see <http://www.imf.org/external/np/sec/pn/2009/pn0940.htm>.

the most vulnerable; maintaining investments in infrastructure; and support for small and medium-size enterprises (SMEs) and microfinance (see Figure 1).

Figure 1: The World Bank Group's response to global crises



The WB has also made a Call for Action for developed countries, which have been requested to allocate 0.7% of their stimulus packages, in addition to ODA commitments, to a Global Vulnerability Fund, targeted at LICs and the poor and vulnerable in developing countries. This would support countries that cannot afford bailouts and deficits by funding investments according to the World Bank's three priority areas. Donors would be allowed to channel funds through their preferred existing mechanisms (e.g. bilateral/multilateral/NGOs).

IDA (soft loans) and **IBRD** (non-concessional loans) have introduced and expanded the following facilities to respond the global crisis:

- A new fast track facility of \$2 billion (from the \$42 billion for FY2009-2011 committed through the IDA15 replenishment) to be spent on safety nets, infrastructure, education and health. Armenia and the Democratic Republic of Congo (DRC) are recipients of the scheme, having been allocated \$35 million and \$100 million, respectively.
- IBRD new commitments of up to \$100 billion over the next three years. The Bank has already approved \$500 million for Ukraine, \$3 billion for India, \$2 billion for Indonesia and \$500 million for Costa Rica. IBRD is expected to nearly triple its lending in FY2009, from \$13 billion to \$35 billion, including through fast-disbursing development policy loans.
- Infrastructure Recovery and Assets (INFRA) Platform, which will provide \$45 billion to fund infrastructure projects over the next three years (with the possibility of leveraging more funds). There will be a specific Africa INFRA Platform of about \$5-6 billion (the WB has allocated \$2 billion) and a focus on green investments.
- Tripled investments in safety nets, health and education to \$12 billion over the next two years.
- Rapid Social Response Programme (RSR), which is part of the Vulnerability Financial Facility (VFF) and aims to: 1) improve access to basic social services, particularly maternal/infant health and nutrition and school feeding; 2) scale up targeted safety net programmes; and 3) expand labour market initiatives, including income support for the unemployed, training and work placements. It is not clear how much money has been earmarked for the RSR. The UK has already contributed £200 million to the programme.
- The Global Food Crisis Response Programme (GFRP), launched in May 2008 as part of the VFF, which aims to: 1) decrease the negative impact of the high and volatile food prices on the poor; 2) support governments in the design of sustainable policies that mitigate the adverse impacts of the food prices; and 3) support broad-based growth in productivity and market participation in agriculture. In April 2009, the GFRP was increased from \$1.2 billion (of which \$200 million

was grants) to \$2 billion. In addition to this, \$200 million has been provided through Trust Funds. The following LICs have received funds from the GFRP: Afghanistan (\$8 million); Bangladesh (\$130 million); Benin (\$9 million); Burundi (\$10 million); Central African Republic (CAR) (\$7 million); Ethiopia (\$275 million); Guinea (\$10 million); Guinea-Bissau (\$5 million); Haiti (\$10 million); Kenya (\$50 million; \$5 million); Kyrgyz Republic (\$10 million); Laos (\$3 million); Liberia (\$10 million); Madagascar (\$10 million; \$12 million); Mali (\$5 million); Mozambique (\$20 million); Nepal (\$36 million); Niger (\$7 million); Rwanda (\$10 million); Senegal (\$10 million); Sierra Leone (\$7 million); Somalia (\$7 million); Tanzania (\$220 million); Tajikistan (\$9 million); Togo (\$7 million); and Yemen (\$10 million).

The IFC has created an operational platform which aims to support the private sector in the face of the recent global shocks by: 1) providing liquidity support; 2) rebuilding financial infrastructure; 3) managing troubled assets; and 4) alleviating specific regional difficulties. These actions are intended for countries with both immediate and expected needs. The initiatives taken by IFC are the following:

- Doubled Global Trade Finance Programme (GTFP) to \$3 billion.
- New Global Trade Liquidity Programme, which was launched in May 2009 and aims to mobilise more than \$6 billion over three years from governments, international finance and development institutions, as well as banks in order to support \$50 billion of trade. So far, the IFC has committed \$1 billion, the UK £300 million, Canada \$200 million and the Netherlands \$50 million. Among the first banks participating in the programme were Standard Chartered Bank and South Africa's Standard Bank.
- The Infrastructure Crisis Facility to ensure financing for viable infrastructure projects and to enable a minimum level of continued new private infrastructure project development. The IFC has planned to provide up to \$300 million over the next three years and is seeking additional funds from other sources (Germany has committed €100 million). The IFC expects governments and other institutions will invest at least \$2 billion.
- The Microfinance Enhancement Facility to provide up to \$500 million of funding to more than 100 sound microfinance institutions in up to 40 poorest countries worldwide. Thanks to this facility, the IFC expects to support lending up to 60 million low-income borrowers. So far, the IFC has provided \$150 million and the German Development Bank (KfW) \$130 million.
- The Global Food Fund has between \$1.5 billion and \$3 billion to respond to the sharp fluctuations in food prices in the IFC's priority areas.
- The Capitalisation Fund of up to \$5 billion, to recapitalise emerging markets' private sector systemic banks with a minimum 7% market share (in terms of loans). So far, the IFC has agreed to invest \$1 billion in the fund over the next three years, and the Japan Bank for International Cooperation (JBIC) has also planned to invest \$2 billion.
- Advisory Services to provide advice at the firm and bank level on new crisis-response programmes in risk management and non-performing loan management, as well as at the policy level on insolvency frameworks. For this purpose, the IFC expects a financing need of at least \$40 billion over the next three years.

The IFC has also launched a number of targeted regional initiatives jointly with other organisations and institutions:

- Joint Action Plan in Africa designed together with MIGA, the IBRD and six other international financial and development institutions in order to provide financial support of at least \$15 billion over the next two to three years to Africa. The IFC has agreed to contribute at least \$1 billion.
- Joint IFI Action Plan for Central and Eastern Europe designed together with the other institutions of the WB, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) Group to allocate €24.5 billion to the region in order to support its banking system and to fund lending to crisis-hit businesses. The IFC has planned to contribute up to €2 billion.

- Joint Effort in Latin America and the Caribbean designed together with the Inter-American Development Bank and the Inter-American Investment Corporation (IADB/IIC), the WB, Corporación Andina de Fomento (CAF), the Caribbean Development Bank (CBD) and the Central American Bank for Economic Integration (CABEI) to provide \$90 billion over the next two years in order to promote economic recovery in the region. The IFC is expected to contribute more than \$13 billion.

In order to restore liquidity in financial markets, MIGA has launched the following initiatives:

- Guarantees totalling over \$480 million to foreign banks lending to their subsidiaries in Ukraine and Russia;
- Political risk coverage of up to €2 billion for bank lending in order to contribute to the Joint IFI Action Plan for Central and Eastern Europe;
- Political risk coverage for up to \$150 million of the African Development Corporation's (ADC) planned investments.

According to a recent assessment of the World Bank's response to the global financial crisis conducted by the Independent Evaluation Group (IEG),¹⁰ in fiscal year 2009 the World Bank has provided financial support mainly through IBRD lending. Indeed, IBRD disbursements rose from \$10.5 billion in fiscal 2008 to about \$18.5 billion in fiscal year 2009, while IDA disbursements remained flat at \$9 billion. The report also highlights the increase in the share of disbursement in social protection programs as a positive feature of the current World Bank response. On the other hand, the following concerns are raised:

- IBRD lending increase was concentrated in a few middle-income countries (82% of IBRD lending went to just 13 middle-income countries in four regions), but the World Bank needs to ensure adequate financial flows to low-income countries as well.
- There is a need to balance speed with quality of results.
- Actions on climate change issues should be integrated into the crisis response.
- Close attention to fiscal sustainability is needed.
- There is a need to balance private and public actions. With respect to the latter, the World Bank should 'continue support government capacity, transparency, and effective regulatory policy'.
- The issues of the World Bank's financial capacity need to receive attention.
- Partnership and coordination agreements as well as preparedness should be enhanced.

3.3 Regional development banks

RDBs have responded to the crisis in various ways, including trade credits. In particular, the Asian Development Bank (ADB), but also the IADB, lacked sufficient capital for increased lending. The African Development Bank (AfDB) was also expecting that it would need additional resources. In April, the G-20 London summit communiqué included support if necessary for the recapitalisation of multilateral development banks (MDBs, the four regional development banks plus the World Bank) to enable increased lending of at least \$100 billion. This was reaffirmed in the G-20 Finance Ministers communiqué in early September 2009, which also recognised that the MDBs were 'fully on track' to deliver the \$100 billion additional lending.¹¹ A 200% general capital increase for the ADB was also proposed.

A progress report issued at the September 2009 Finance Ministers meeting noted that MDBs had 'substantially increased' their lending, with plans for at least \$110 billion this year (of which over \$60 billion is committed by the World Bank, leaving around \$50 billion for the RDBs).¹² In April 2009, the

10 See <http://siteresources.worldbank.org/INTOED/Resources/EB8-web.pdf>.

11 http://www.g20.org/Documents/FM_CBG_Comm_-_Final.pdf.

12 G20 (2009) 'Progress Report on the Actions of the London and Washington G20 Summits'. 5 September, p5.

ADB agreed the 200% capital stock increase to \$165 billion from \$55 billion.¹³ The MDBs had also 'launched specific initiatives or extended existing ones on trade finance'¹⁴ and saw 'concrete steps' through their use of balance sheets. These included AfDB debt to Usable Capital Ratio, ADB releasing \$400 million from its 'prudential minimum liquidity' to the African Development Fund (ADF) and a \$4 billion balance sheet increase for the IADB and increasing disbursements by \$2 billion.¹⁵

The G-20 also pledged support for a review of capital requirements of the IADB, AfDB and EBRD, and the processes of this began 'with a view to a decision in the spring' of 2010.¹⁶ The IADB is to consult on the capital increase.¹⁷ As regards the World Bank, the Development Committee will consider a report on financial capacity at the October 2009 IMF–World Bank Annual Meetings.

3.3.1 African Development Bank

In March 2009, the AfDB agreed to respond to the crisis through three different instruments:

- Emergency Liquidity Facility (ELF) tentatively set at \$1.5 billion. Eligible beneficiaries include but are not limited to sovereign and non-sovereign clients in AfDB countries. The ELF has a broad range of uses, including 'underpinning a fiscal stimulus' and 'supporting public–private partnerships'. The country limit is set at an initial cap of \$150 million, subject to review. Bids for fund resources would be considered within 10 working days. Loans would be for five years (three years' grace), with interest rates and fees dependent on whether the loan is sovereign guaranteed or not. Sovereign-guaranteed loans have a 250 basis point premium and a 0.5% 'front end' fee, whereas non-guaranteed loans have their premium determined on a case-by-case basis with a 1% fee.¹⁸
- Trade Finance Initiative of \$1 billion to overcome trade finance issues. This initiative includes short-term products such as trade finance lines of credit (for trade finance operations only), but paves the way for multipurpose lines of credit (initially for trade finance purposes and then for long-term project or corporate finance operations).¹⁹
- Faster transfer of resources and greater policy support and advice.

The AfDB has also launched the ADF Fast Track Programme for more flexible fund operations (including 'significant frontloading of resources', of up to 100% for all ADF countries in 2009).

3.3.2 Inter-American Development Bank

The IADB notes that it has increased lending, providing safety nets and trade support to alleviate the effects of the crisis.

Loans, guarantees and grants were \$4.9 billion, up 30% in the first half of 2009 compared with the first half of 2008. A \$6 billion emergency Liquidity Programme for Growth Sustainability Facility was created in October 2008, and in May 2009 the IADB:²⁰

[...] increased concessionary funds available for Bolivia, Guyana, Honduras and Nicaragua, allowing for lending to expand to the four nations by 39 percent during 2009 and 2010, to \$485 million per year. In addition, the IADB doubled its special grant facility for Haiti to \$100 million for 2009 and the Bank cancelled \$511 million in loan repayments from the country, part of an international debt relief effort. For next year, the IADB plans to provide Haiti with another \$120 million in grants.

¹³ Ibid, p4.

¹⁴ Ibid, p3.

¹⁵ Ibid, p5.

¹⁶ Ibid.

¹⁷ <http://www.iadb.org/news/detail.cfm?language=English&id=5645>.

¹⁸ See <http://www.afdb.org/en/projects-operations/financial-products/emergency-financing/> for details.

¹⁹ See <http://www.afdb.org/en/topics-sectors/initiatives-partnerships/trade-finance-initiative/> for details.

²⁰ <http://www.iadb.org/news/crisis/increaseLending.cfm>.

The IADB states that it has financed conditional cash transfers in Mexico, Honduras and Guatemala, and helped make programmes in Paraguay and Mexico more efficient.²¹ The Trade Finance Facilitation Programme now offers loans as well as guarantees, with funding increased from \$400 million to \$1 billion.

3.3.3 Asian Development Bank

In Asia, the ADB expected crisis-related lending to increase by over \$10 billion in 2009/10. This is made up of: '\$1 billion for trade finance, \$3 billion for the Countercyclical Support Facility and about \$6 billion to extend loans such as those for infrastructure investment'.²² The CSF, valued at \$3 billion, was set up in June 2009 to provide support for public expenditure during the economic crisis.²³ CSF loans would be repayable over five years (three years' grace) at 200 basis points above ADB financing costs.

The first CSF beneficiary was the Philippines, with a \$500 million loan in August for a fiscal stimulus package,²⁴ while Kazakhstan and Vietnam had similar loans approved in September.²⁵ Bangladesh, Indonesia, Pakistan and Sri Lanka have also applied and are awaiting approval. For countries unable to access the CSF, \$400 million of funds would be made available through the ADF as concessionary loans and grants to LICs in the region.

3.3.4 Caribbean Development Bank

The CDB has responded to the crisis by introducing a number of initiatives which aim to provide budgetary support, to support micro, small and medium-sized enterprises, to provide support for infrastructure development and to address social issues. The instruments that have been launched are the following:

- Policy-based Loans (PBLs) of approximately \$100 million over the next two years to provide budgetary support and facilitate the necessary fiscal and institutional reforms.
- Investment loans up to \$260 million over the next two years, which will be allocated mainly to infrastructure investments.
- Intermediary lending up to \$50 million over the next two years to support micro, small and medium-sized enterprises and access to tertiary education through student loans.
- Basic Needs Trust Fund (BNTF) up to \$7.8 million in grant resources over the next six years to address social protection issues.
- Caribbean Aid for Trade and Regional Integration Trust Fund (CARTFund) of about \$7 million over the next two years to support CARIFORUM member countries in fostering growth and reducing poverty through trade and regional integration.
- Technical assistance to promote institutional capacity building and improve policy responses in the crisis context.

3.4 European Commission

An April 2009 Commission Communication and related working papers called on Member States to honour their ODA commitments, and also to 'mobilise additional development-relevant finance', such that aid spending should leverage five times as much in non-ODA, including 'technology transfers, trade finance and private investment'.²⁶ It proposes that Member States consider further innovative funding sources such as voluntary solidarity levies, including an airline tax for health programmes.

21 <http://www.iadb.org/news/crisis/safety.cfm>.

22 ADB (2009) 'The Global Economic Crisis: Implications for Asia-Pacific and ADB'. 9 September.

23 <http://www.adb.org/Documents/Policies/Global-Economic-Crisis/r77-09.pdf>.

24 <http://www.adb.org/Media/Articles/2009/12966-philippines-loans-approvals/>.

25 <http://www.adb.org/Media/Articles/2009/12978-kazakhstan-loans-approvals/> and <http://www.adb.org/Media/Articles/2009/12981-vietnamese-loans-approvals/>.

26 European Commission Communication (2009) 'Supporting Developing Countries in Coping with the Crisis'. 8 April (COM (2009) 160 final), p5. See also working paper *Millennium Development Goals — Impact of the Financial Crisis on Developing Countries*.

The EC called for immediate action from Member States in their bilateral aid, changing priorities, speedier release and frontloading of aid and budget support. For its part, the EC committed to speed up the Mid-term Review of its strategy papers and support programmes in 2009 and 2010. It would also speed up aid to emergency and post-emergency areas. The EC also committed to €4.3 billion of frontloaded ACP aid in 2009, and would ‘examine further ways to speed up aid delivery’. It would also review current ‘quick-impact’ budget support for most vulnerable cases and examine frontloading options.

The EIB would focus on infrastructure and the financial sector in 2009-2011, accelerate disbursements and frontload ACP-related commitments (€3.5 billion Investment Facility and €2 billion Own Resources in 2008-2013) and under ‘other external mandates’ (€25.8 billion in 2007-2013, ‘possibly increasing by €2 billion’).

On social protection, the EC would support actions to counteract social effects of the crisis ‘through the creation and strengthening of social safety nets, facilitation of direct cash transfers and enhancement of in-kind transfers’. Also, at least €500 million would be allocated to ACP countries under the 10th European Development Fund (EDF) through FLEX (the EU instrument to compensate ACP countries for short-term fluctuations in export earnings) and an ‘ad hoc vulnerability FLEX, based on parameters such as forecasted export losses, decreased remittances and financial flows’. Member States were urged to support these moves.

The EC would also support infrastructure and job creation, establishing ‘a network of EU and other financiers to draw up a pipeline of accelerated infrastructure investments to be financed in 2009/2010’. Also, €200 million would be allocated to the EU-Africa Infrastructure Trust Fund for 2009-2010 (doubling), and Member State support would be sought to reach €500 million by 2010 (to ‘leverage €2.5 billion in soft loans to support infrastructure’).

The Commission would also frontload the €1 billion Food Facility, committing over €500 million over the first six months of 2009 then €300 million more by the end of 2009. There were also further proposals on climate change, trade and aid effectiveness.

The Council of Ministers was generally supportive of the Commission’s Communication, including targeted social protection measures, the vulnerability FLEX mechanism and the EU–Africa Infrastructure Trust Fund proposals.²⁷

3.5 United Nations

The UN has responded less quickly than some other multilaterals, although it organised the Doha Conference on Financing for Development in November 2008, commissioned the Stiglitz report on the crisis and convened a June conference by the Economic and Social Council (ECOSOC) in New York and a General Assembly on the crisis. Bodies such as the UN Conference on Trade and Development (UNCTAD) and UNICEF have done vulnerability assessments.

A recent UN document (15 September 2009) consolidates its approach:²⁸

1. Additional financing for the most vulnerable: advocating and devising a joint World Bank–UN system mechanism for the common articulation and implementation of additional financing, including through the World Bank proposed Vulnerability Fund.
2. Food Security: Strengthening programmes to feed the hungry and expanding support to farmers in developing countries.

²⁷ Council of Ministers (2009) ‘[Council Conclusions on Supporting Developing Countries in Coping with the Crisis](#)’, 18 May.

²⁸ www.un.org/ecosoc/docs/adv2009/Report.Follow-up.to.the.financial.crisis.synthese.15.Sept.09.pdf.

3. Trade: Fighting protectionism, including through the conclusion of the Doha Round and strengthening Aft initiatives and finance for trade.
4. A Green Economy Initiative: Promoting investment in long-term environmental sustainability and putting the world on a climate-friendly path.
5. A Global Jobs Pact: Boosting employment, production, investment and aggregate demand, and promoting decent work for all.
6. A Social Protection Floor: Ensuring access to basic social services, shelter and empowerment and protection of the poor and vulnerable.
7. Humanitarian, Security and Social Stability: Emergency action to protect lives and livelihoods, meeting hunger and humanitarian needs, protecting displaced people and shoring up security and social stability.
8. Technology and Innovation: Developing technological infrastructure to facilitate the promotion and access to innovation.
9. Monitoring and Analysis:
 - Strengthening macroeconomic and financial surveillance and implementing an effective economic early warning system;
 - Urgently establishing a UN system-wide vulnerability monitoring and alert mechanism to track developments and report on the political, economic, social and environmental dimensions of the crisis.

The document groups the various UN bodies by these themes.

3.6 Summary

This section has covered the responses by several multilateral bodies, such as the IFIs, RDBs and the EC. It is fair to say that most multilaterals have been very active in responding to the crisis. The IMF has responded quickly to the crisis, increasing its lending to LICs from \$1.2 billion in 2008 to an expected \$4 billion this and next year. However, it can provide only about 2% of low-income countries' (gross) external financing needs. The G-20 trebled its lending capacity to \$750 billion, much of which is going to MICs. There are ongoing discussions about governance reforms and also about how future lending could be funded (including the concessional part and for the future, as countries will need to repay after five years). Conditionalities have decreased.

The World Bank's IBRD has trebled its lending, from \$13 billion to \$35 billion, spending an estimated \$100 billion over three years. The IDA may also frontload some \$2 billion for its fast track facility (for safety nets, infrastructure, education and health) but few bilateral donors have so far supported the proposed vulnerability framework, which poses a question as to whether the whole of the IDA should have one specific crisis facility. The IFC doubled its global trade finance programme to \$3 billion. RDBs have increased lending and several have received capital endowments.

The EC has acted more quickly than some bilateral donors by issuing a new Communication, but it remains to be seen how Member States will support these proposals. This would frontload the €1 billion food facility, double the outlays for the EU–Africa Infrastructure Trust Fund, provide €500mn via FLEX and frontload €3 billion in budget support (72% of the total amount of expected budget support for ACP countries) to safeguard social expenses.

4. Responses by bilateral donors

While responses by the IFIs may be well known, it has proven more difficult to identify how donors have reacted through their bilateral country programmes. However, donors have made policy statements related to the crisis, and some offer specific examples of reprogrammed aid or increased spending from reserves. We focus on a selected number of bilaterals and summarise donor responses in Section 4.16, distinguishing between aid volumes, aid instruments, new aid initiatives and other policies (as discussed in Section 2).

4.1 United Kingdom

The UK has responded quickly to the financial crisis, especially at the multilateral level, where it has advocated several changes²⁹, but less so at the bilateral level, although some additional allocations to social protection have been made by using reserves. A January 2009 Memorandum to the International Development Committee's Aid Under Pressure inquiry said that the Department for International Development (DFID) had assessed the vulnerability of 28 countries (22 Public Service Agreement (PSA) countries plus China, South Africa, Guyana, Indonesia, Jamaica and the Kyrgyz Republic) using country office and IFI assessments and a vulnerability matrix, featuring foreign currency reserves in months of imports, extent of reversible external capital flows, macroeconomic fundamentals, openness to trade, commodity dependency, fiscal balance and food vulnerability. It also commissioned external research, including the Overseas Development Institute's (ODI) 10-country synthesis.³⁰

Using this information base, DFID would look to 'mitigate the risks' of the crisis through country programmes by reviewing their composition:³¹

In those countries which were already vulnerable before the crisis or where impacts are already being felt, the challenge is to consider where there is currently scope in the bilateral programmes to support adjustment. In those countries where the impact has not yet been felt, there is an opportunity to produce contingency plans based on analysis of potential impacts on either the aid budget or the real economy.

It stated that 2009/10 and 2010/11 country programmes had already seen the following resources reallocated:³²

- Ethiopia: £15 million for social protection
- Bangladesh and Mozambique: 'Additional funds' for social protection
- Kenya and Ethiopia: 'Scaling-up' of emergency aid
- Bangladesh: £2 million brought forward for education to address shortfall created by donor currency depreciation
- Pakistan: 'Adjustment to Financial Inclusion Programme through partial credit guarantee, and work on social protection programmes'

DFID said inter-programme reallocation would happen only 'where agreed with partner governments', noting that, because current programmes were already focused on reducing poverty, 'the optimal degree of reallocation is not likely to be very large'. It would also make 'additional investments in infrastructure', specifically £67 million on the Southern Africa North–South Corridor and £20 million for other new regional infrastructure projects. It would also increase investment 'in basic services, in line

29 The UK is supportive of GIVAS and contributed £200m to the Social Protection Fund, see <http://www.dfid.gov.uk/Media-Room/Press-releases/2009/Douglas-Alexander-pledges-200m-for-rapid-response-global-safety-net>.

30 House of Commons International Development Committee (2009) 'Aid Under Pressure: Support for Development Assistance in a Global Economic Downturn' (4th Report of 2008-09), 2 June (HC 179 I (main report) & II (Evidence Volume)), supplementary written evidence submitted by DFID, ev8.

31 Ibid, para 6.

32 See also [DFID Crisis Response](#) press release, 19 February.

with commitments previously made for education, water & sanitation and health', including £26.5 million in Kenya and £17 million in Ethiopia for education and health.³³

Compared with pre-crisis plans, DFID would increase bilateral social protection expenditure by £50 million in 2009/10 (from £105 million) and 2010/11 (from £100 million), including £35 million for: Ethiopia (see above), HIV/AIDS support in Zimbabwe and 'economic opportunities in Pakistan'.³⁴ This comes from 'unallocated resources within [DFID's] bilateral programme'³⁵ rather than from other bilateral programmes.

July 2009's DFID White Paper states that it 'must also meet our pledges on financing, and further extend access to quality public basic services'³⁶ (para 5.2). These are:

... keeping under review the case for accelerated support through our bilateral country programmes. We have already front-loaded some funds to a number of countries in sub-Saharan Africa, and will do so more widely if this is needed and we can make a difference. (para 2.32)

The White Paper reaffirms the 0.7% of gross national income (GNI) as ODA by 2013 and 0.56% by 2010/11 pledges, tripling 2004/05 sub-Saharan African spending by 2010/11 (para 5.13), and advocates a G-8 aid reporting system. The White Paper also emphasises multilateral approaches (e.g. in the context of the G-20). Various expenditures are cited,³⁷ but it is unclear whether these are new commitments, or whether they are explicitly 'crisis related'.

In its White Paper, DFID emphasised 'a fundamental shift in the way the UK delivers development aid, refocusing resources onto fragile countries [with 50% of new aid committed to them] and for the first time treating security and justice as a basic service alongside health, education, water and sanitation'.³⁸ Alongside maintaining aid budgets, it highlighted a doubling to £1 billion of African infrastructure funding and placing security and justice 'alongside health, education, water and sanitation' as a basic service through a tripling of funding to £120 million by 2014.

DFID also says that it will 'support 50 million poor people through social assistance and related measures', work on a World Bank long-term shock-related crisis response facility, deliver G-20 London summit commitments and 'monitor debt levels to protect the progress of the last decade'. It has contributed to a new G-20-inspired IFC Global Trade Liquidity Programme, enough to 'leverage at least \$1.2 billion in trade finance'.³⁹

Since the White Paper there have been further announcements of new DFID funding, including:

- Bangladesh new education grant of £18.5 million (18 August);⁴⁰
- DRC doubled road building programmes from £38 million to £76 million (10 September);⁴¹
- South Africa £18 million contribution to an Employment Creation Fund (clustered around Economic, Employment and Infrastructure) (11 September).⁴²

³³ House of Commons International Development Committee (2009), para 7.

³⁴ Ibid, Q247 ev 66.

³⁵ Ibid, Q248.

³⁶ <http://www.dfid.gov.uk/commonfuture>.

³⁷ On humanitarian aid it states that the UK will increase funding for the UN Central Humanitarian Response Fund (CERF) of up to £60 million a year, subject to others' contributions (para 6.61, 6.62), and 'at least £5 million a year in new core funding to NGOs for humanitarian action' (para 6.66).

³⁸ <http://www.dfid.gov.uk/Media-Room/Press-releases/2009/New-poverty-plan-will-help-millions/>.

³⁹ <http://www.dfid.gov.uk/Media-Room/Press-releases/2009/New-financial-boost-for-businesses-in-developing-countries-from-UK-government/>.

⁴⁰ <http://www.dfid.gov.uk/Media-Room/Press-releases/2009/UKaid-guarantees-600000-children-in-Bangladesh-a-decent-education/>.

⁴¹ <http://www.dfid.gov.uk/Media-Room/Press-releases/2009/UK-unveils-plan-to-double-its-funding-to-rebuild-the-Congos-road-network/>.

⁴² <http://www.dfid.gov.uk/Media-Room/Press-releases/Employment-creation-fund/>.

Concerns have also been raised over the economic health of the UK's overseas territories and Crown dependencies, and that, should any future support be required, this could come from aid budgets.⁴³

4.2 Ireland

Ireland has come under criticism for reducing aid budgets, in contrast with earlier commitments, during its recession. Ireland's ODA is expected to fall by €224 million (24%), from €920 million in 2008 to €696 million in 2009.⁴⁴ Although Ireland reached 0.59% of GNI as ODA in 2008, a May 2009 estimate was that this would fall to 0.48% of GNI in 2009.⁴⁵

NGOs have reported that Ireland's aid budget has been reduced on four occasions: €45 million (July 2008), €15 million (October 2008), €95 million (February 2009)⁴⁶ and €100 million (April 2009).⁴⁷ They argue that the reductions are double the amount required to reduce ODA in line with GNI.⁴⁸

In a review of Ireland's development assistance, the OECD's Development Assistance Committee (DAC) urged the Irish government 'to refrain from further budgetary action that would undermine this [0.7% target] commitment' and said that attaining 'its interim target of 0.6% in 2010 is essential even in an environment of declining GNI'.⁴⁹

Ireland's Department for Foreign Affairs, of which Irish Aid is a part, states that the Irish government 'is committed' to reaching the 0.7% target in 2012, with interim targets of 0.5% reached in 2007 and 0.6% to be reached in 2010.⁵⁰ A July 2009 report recommended delaying the 0.7% target until 2015.⁵¹

Irish Aid has long-term commitments in nine programme countries, seven in Africa and Vietnam and Timor Leste, as well as 'focused programmes' in Eastern Europe and Central Asia, Palestine, Sierra Leone, Liberia, Zimbabwe and South Africa. The 2008 annual report does not contain a detailed time series or future expenditure plans, either by country or in aggregate.⁵²

Details of the ODA reductions and effects on programme countries, UN agencies and civil society were discussed at a May 2009 meeting of Ireland's Inter-Departmental Committee on Development,⁵³ although these do not appear to have been published.

Anecdotal evidence, including from Uganda, suggest that the earlier cuts involved cuts of 10% across all programmes within a country.

4.3 Australia

AusAID has a specific page on its response to the global recession,⁵⁴ with an updated newsletter (latest August 2009)⁵⁵ from its Chief Economist and AusAID's Global Recession Taskforce ('to coordinate a

43 'Britain "May Be Forced to Bail Out Tax Havens"', *The Guardian*, 13 September 2009.

44 'Minister Power Highlights the Impact of Ireland's Aid Programme at Launch of Irish Aid Annual Report', Irish Aid press release, 9 September 2009.

45 'OECD Calls on Government to Meet Aid Targets', Dóchas (Irish Association of Non-governmental Development Organisations) press release, 7 May 2009.

46 'Statement on ODA levels by the Minister for Foreign Affairs and Minister of State', Irish Aid press release, 3 February 2009.

47 NGO 'We Can't Afford to Give Less' campaign, FAQ page: <http://wedocare.ie/wordpress/faqs/#faq5>.

48 '222 People – One for Every €1 Million Cut from the Aid Budget – Gather Outside Department of Finance to Call on Government to Show that Ireland Does Care'; NGO 'We Can't Afford to Give Less' campaign press release, 9 September 2009.

49 OECD-DAC (2009) 'Ireland DAC Peer Review', April, pp13&15.

50 <http://www.dfa.ie/home/index.aspx?id=368>.

51 "'Cabinet Still Committed to Aid Target", says Power', *Irish Times*, 10 September 2009.

52 Irish Aid (2009) *Annual Report 2008*, September.

53 <http://www.dci.gov.ie/Uploads/Report%20of%20Eighth%20Meeting%20of%20the%20IDCD.pdf>.

54 <http://www.ausaid.gov.au/makediff/gec.cfm>.

comprehensive aid response to the global recession') in consultation with the Whole-of-Government Working Group on the Global Recession in Developing Countries set in late 2008.⁵⁶

In the 2009/10 budget, the Australian government committed⁵⁷ to 'increase its aid in areas that support broad-based growth and employment generation, in particular in rural development, infrastructure and private sector development, including financial services'.⁵⁸ The budget states⁵⁹ that Australian ODA will reach 0.34% of GNI in 2009/10, up 2% in real terms on the previous year, although between 2007/08 and 2008/09 the real increase was 12%. ODA will reach 0.40% of GNI by 2012/13, then 0.5% by 2015/16.

Aid for basic services (education, health and infrastructure, including water and sanitation) in 2009/10 will increase by more than 30% from 2008/09 levels. Australia would 'prioritise efforts to respond to the impacts of the global recession on Australia's developing country partners. Australia's response will target the needs of the most vulnerable, growth and employment creation and the maintenance of essential service delivery'. Expenditure on humanitarian, emergency and refugee programmes will fall slightly (from AU\$300.7 million in 2008/09 to AU\$299.8 million in 2009/10) and multilateral bank replenishments will fall to zero (from AU\$515 million in 2008/09).

Apart from a US\$198 million replenishment of the ADB over 10 years, specific initiatives include:

- **Food Security through Rural Development** (AU\$464.2m (c. £240 million) over four years) for increased food production globally and countering food insecurity in developing Asia-Pacific and Africa;
- **Economic Infrastructure** (AU\$454.2m (c. £235 million) over four years) for high priority infrastructure in developing countries that will enable growth and job creation.

Country/regional programme aid will increase 7.9% between 2008/09 and 2009/10, although the equivalent increase between 2007/08 and 2008/09 was 27.5% (when the real increase in total ODA was 12%).⁶⁰

The AusAID Global Recession Taskforce oversaw 'a rapid review of existing programmes', issuing the Action Plan for Responding to the Global Recession⁶¹ with three priority areas: employment and growth; supporting health and education services; and protecting the vulnerable. It outlines the following country-specific interventions:

- Cambodia: Irrigation development, agribusiness, research and the business environment
- Laos: School feeding programme (via WFP)
- Philippines: Health sector support for access to reproductive health and family planning services, and expand Conditional Cash Transfer programme for more poor households (with World Bank)
- Samoa & Tuvalu: Economic management for macroeconomic stability, budgetary management and reform to improve economic resilience
- Solomon Islands & Vanuatu: Increase work opportunities through labour-intensive maintenance of (e.g. roads, schools and health facilities) and school fee relief.

55 http://www.ausaid.gov.au/makediff/pdf/recession_update_5.pdf.

56 By the 'International Economic Policy Group', chaired by AusAID's Chief Economist, Mark McGillivray. Its purpose is 'to share Global Recession information (including analysis and monitoring), co-ordinate responses to Global Recession challenges as they arrive and formulate a standardised position on the extent of Global Recession impacts on developing nations' (see [Newsletter #1](#)).

57 http://www.budget.gov.au/2009-10/content/ministerial_statements/ausaid/html/ms_ausaid-06.htm.

58 http://www.budget.gov.au/2009-10/content/ministerial_statements/ausaid/html/ms_ausaid-10.htm#P1249_168672.

59 http://www.budget.gov.au/2009-10/content/ministerial_statements/ausaid/download/ms_ausaid.pdf.

60 A full list of budgets by country is at http://www.budget.gov.au/2009-10/content/ministerial_statements/ausaid/html/ms_ausaid-10.htm#P1249_168672.

61 http://www.ausaid.gov.au/makediff/pdf/action_plan.pdf.

AusAID states that it will also ‘strengthen monitoring and analysis on the path and impacts of the recession, ensure existing programmes are responsive to changing needs, and seek opportunities to support priority policy and structural reforms’,⁶² and:

Australia will work with partner countries to ensure aid spending is effectively targeted towards minimising recession impacts on the delivery of essential services. Appropriate actions to support maintenance of basic health and education services may include increased school-based grants, fee relief and funding to maintain essential pharmaceutical supplies to health centres.

[...] The employment generation impacts of existing aid programmes in infrastructure and enterprise development will be boosted significantly by 2009-10 budget initiatives in rural development and food security and economic infrastructure. Emphasis will be given to labour-intensive public works programmes, such as road maintenance, especially in regional areas, where alternative employment opportunities are scarce. Programmes to increase employment opportunities will be targeted to groups most affected by the recession, such as women in export-oriented industries or rural youth. Australian support for technical and vocational training will also continue to be expanded.

[...] As government revenues decline it will be important to focus limited resources on essential health, education and economic infrastructure services. Australia will assist partner countries to assess fiscal gaps, reprioritise expenditures and improve the quality of budgeting and expenditure management. Budget initiatives in 2009-10 to increase the use of performance-linked aid and improve transparency and accountability in government will support partner country efforts.

Australia’s Parliamentary Secretary for International Development Assistance outlined the assistance donors could provide island nations in the crisis in a speech:⁶³

There are many things Australia and other donors can do to help island nations respond to the global recession.

Donors can invest more heavily in rural growth and in structural reforms. We can help strengthen health and education service delivery.

Donors can provide assistance that targets the more vulnerable groups including women, children and people with disability through initiatives such as feeding programmes or waiving school fees, as is proposed in Samoa.

Donors can help generate employment and restore growth by funding employment-intensive public works. For example, this year Australia has directed around \$5 million of our aid in Solomon Islands to support local procurement through road maintenance and school infrastructure programmes. With the Vanuatu Government, Australia is investing over \$18 million over three years to build the capacity of communities and the local private sector to maintain over 250 kilometres of road, generating more than 150,000 days of work for local people.

Donors must also target assistance to strengthen the capacity of Pacific nations to take advantage of global trade and employment opportunities.

4.4 United States

A US Agency for International Development (USAID) document⁶⁴ suggested that:

A sharp increase in global poverty has the potential to spark new humanitarian crises, erode the gains from a wide range of major US taxpayer investments in development, reverse recent progress toward achieving the Millennium Development Goals, and de-stabilize countries that share common interests and are key partners of the United States in a wide range of international forums.

⁶² <http://www.ausaid.gov.au/makediff/gec.cfm>.

⁶³ ‘The Role of Foreign Aid in Responding to the Economic Crisis in the Pacific Islands Region’, speech by Bob McMullan MP, Parliamentary Secretary For International Development Assistance, 3 August 2009.

⁶⁴ http://www.usaid.gov/policy/budget/cbjs2009/cbjs2009_62.pdf.

The US government has requested \$448 million in assistance for developing countries affected by the economic crisis from the Economic Support Fund (ESF). The criteria that are generally used to select a limited number of recipients are based on:

- 2007 per capita GNI of \$3,705 or less;
- Sharp slowdown in economic growth as a result of the crisis;
- Slowdown having severe impacts on highly vulnerable poor populations;
- Various impacts significantly raising the risk of social and political instability;
- Recipient government demonstrating strong commitment to improving good governance, including transparent and accountable management of public resources;
- Government, however, not having the fiscal capacity to mitigate the impact of the crisis on their most vulnerable populations.

Alongside countries that will meet these criteria, Guatemala, Haiti, Liberia, Mongolia, Tanzania and Zambia could be targeted for assistance. Funds requested will:

- Provide a temporary safety net (e.g. health, education, cash-for-work programmes) to highly vulnerable populations;
- Provide technical assistance to build the capacity of governments, financial institutions and private enterprises to restore and sustain broad-based economic growth; and
- Provide loans and loan guarantees to private financial institutions to help spur private lending and investment which is critical to employment, recovery and growth.

4.5 Canada

There seems to be no noticeable policy change other than the importance of sticking by original commitments. In May 2009, Canada's Minister of International Cooperation, Beverley Oda, announced that Canada would use aid to help alleviate the effects of the economic crisis on developing countries.⁶⁵ But it is not clear whether the CA\$100 million (US\$85 million) additional financing sought to permit the agency to respond quickly and effectively to the effects of the economic crisis has actually materialised.

Canada does not have a target for ODA as a proportion of GNI. The Minister confirmed a CA\$5 billion budget for 2010-2011 for doubling international assistance, and doubling aid to Africa (totalling CA\$2.1 billion this year). Canada also pledged in September 2008 to untie all aid by 2012/13.

Canada's bilateral aid (53% of the Canadian International Development Agency (CIDA) budget) was 'spread too thinly, among so many countries and themes that it was hard to see it making any difference at all'. In February 2009, the Minister stated that CIDA would allocate 80% of its resources to 20 countries: Afghanistan; Bangladesh; Bolivia; Caribbean; Colombia; Ethiopia; Ghana; Haiti; Honduras; Indonesia; Mali; Mozambique; Pakistan; Peru; Senegal; Sudan; Tanzania; Ukraine; Vietnam; and the West Bank/Gaza.⁶⁶ It would have three priority themes: food security, sustainable growth and the future of children. CIDA was also putting 15% of its headquarters staff 'in the field'.

4.6 France

France would stick by its commitments to reach aid worth 0.7% of GDP by 2012. Motivated by the outbreak of the various crises, the CICID (Inter-ministerial Committee for International Development Cooperation), as part of the Ministry of Foreign Affairs, provided a response on 5 June 2009. It suggests

⁶⁵ 'A New Effective Approach to Canadian Aid', speaking notes for the Honourable Beverley J. Oda, Minister of International Cooperation at the Munk Centre for International Studies, Toronto, 20 May 2009.

⁶⁶ <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/JUD-51895926-JEP>.

that, owing to the effects of the global crisis on developing countries, and in accordance with the objectives of G-20, France will:

- Contribute to increasing IMF resources by at least \$16 billion, together with \$1 billion in concessional financings;
- Support an SDR allocation of \$250 billion, of which \$15 billion will go to LICs;
- Support the vulnerability fund proposed by the World Bank with €1.2 billion of co-financing, of which €1 billion will go on facilities and €160 million on trade;
- Take its part in the recapitalisation of the ADB and possibly others.

CICID calls for countercyclical intervention of the AFD group to respond to the global international financial crisis:

- In priority poor countries and in middle income countries with priority relationships, this countercyclical action will rely on all the intervention instruments used by the AFD, including subsidised loans and risk instruments.
- In emerging countries, CICID takes note of the start of intervention by AFD in four 'new' emerging markets (India, Pakistan, Indonesia and Brazil) and China. CICID decides that AFD will use in these five countries the same modalities of intervention.
- Finally, as part of the extension of the field of geographical intervention of the AFD into new developing countries, AFD can engage in Latin America and Asia (Mexico, Colombia, Bangladesh, Malaysia, Philippines, Sri Lanka, Kazakhstan, Uzbekistan and Mongolia). In these countries, AFD will intervene with loans that are not concessional.

4.7 The Netherlands

The Netherlands government is committed to maintaining its ODA target of at least 0.8% of GNI and will therefore over 2009 deliver ODA in accordance with this target. In reality, this means cuts of €600 million (or 11%) in the aid budget, compared with what it would otherwise have been (a change from €5.31 billion to €4.72 billion), because GNI has been much lower than previously forecast.

The responses can be summarised roughly as follows:⁶⁷

- Cuts of €600 million: Education and water programmes are cut or postponed because other countries have contributed more to these.
- Relatively larger cuts in bilateral programmes than in multilateral programmes. Cuts of €140 million in bilateral programmes. Intensification of some multilateral programmes, although there will be cuts of €80 million to UN and IFIs.
- Reallocations across countries (countries that are better off, such as Vietnam and Indonesia, face higher cuts of 25%; fragile states, such as Afghanistan and Burundi, do not face cuts; the budget for other countries, such as Tanzania, Zambia and Mali, will be cut by 12%).
- No clarity on within-programme allocations. There will be cuts in the ORET programme (Development-related Export Transactions) and hence the growth and equity programme, but increases for ORIO (Facility for Infrastructure Development).

The government aims to respond to the crisis adequately and supports initiatives. The Netherlands has made available the following contributions to cushion the impact of the crisis:

- \$50 million to the IFC Global Trade Liquidity Programme
- \$15 million to microfinance funding by the FMO (development bank)

⁶⁷ www.minbuza.nl/nl/Actueel/Nieuwsberichten/2009/09/Kabinet_houdt_zich_aan_internationale_afspraken_ondanks_economische_crisis.

- \$40 million to increase the budget for the ORIO programme, a facility for funding infrastructure in developing countries through the private sector (mainly SMEs).

The government advocates that multilateral development banks should frontload their assistance in order to ensure the availability of the necessary resources, particularly for assistance to LICs.

4.8 Italy

Italy announced a cut in aid last year (by 56% in Ministry of Foreign Affairs managed aid) rather than increasing it significantly, as was promised.⁶⁸ Italian aid is estimated to shrink from 0.22% ODA/GNI in 2008 to around 0.17% in 2009. A slight increase is foreseen for 2010, but this could be followed by a further 33% reduction.

4.9 Japan

As a response to the global financial and economic crisis, the Japanese government announced in April 2009 a new growth initiative aiming to double the size of Asia's economy so that Asia will serve as a "centre of growth open to the world".⁶⁹

The main purposes of this initiative are (i) to ensure sufficient financial resources to address credit constraints and (ii) to support sectors and people vulnerable to the crisis. The targeted areas of this initiative include (a) promotion of individual countries' efforts on infrastructure improvement, domestic demand-led structural reforms and human resources development, and (b) promotion of regional cooperation (ASEAN integration, facilitation of trade and investment, sub-regional development, financial and capital market development, etc). Based on this initiative, the Japanese government announced that it would provide up to JPY 2 trillion (\$ 20 billion) of Official Development Assistance (ODA) mainly to Asia in the following areas.

- Budget support to developing countries. To provide timely financial resources for the expansion of domestic demand in cooperation with the World Bank and ADB in the form of "Emergency Budget Support Japanese ODA Loan" up to JPY 300 billion (\$ 3 billion).
- Assistance to the sectors and people vulnerable to the impacts of the crisis. To build and develop social safety nets.
- Infrastructure improvement. To implement transport and other infrastructure improvement.
- Assistance for capacity building in making and implementing fiscal and monetary policy. To send experts in the fields of fiscal and monetary policies.
- Assistance to SMEs and facilitation of trade and investment. To assist in improving business environment for trade and investment.
- Building a low carbon society. To assist high-efficient power generation, energy conservation, renewable energy development, forestry management, waste management, by utilising Japan's advanced technologies and to provide loans for climate change programmes to comprehensively support partner countries' efforts on climate change policies.
- Human resource development and promotion of people-to-people exchanges. To assist in developing industrial human resources to underpin the economic growth in Asia.

Japan International Cooperation Agency (JICA), Japan's bilateral ODA agency, has provided technical and financial cooperation in line with the Japanese government's initiative as follows in relation to countermeasures against the recent crisis.

Financial and technical cooperation:

⁶⁸ <http://actionaiditaly.blogspot.com/>.

⁶⁹ http://www.kantei.go.jp/foreign/asospeech/2009/04/09speech_e.html.

- Indonesia: Climate Change Program Loan (ii) (ODA loan) USD 400 million (equivalent JPY) (announced October 2009)
- Mongolia: Social Sector Support Program (ODA loan) JPY 2,894 million (June 2009)
- Indonesia: Development Policy Loan (V) (ODA loan) JPY 9,293 million (March 2009)
- Indonesia: Infrastructure Reform Sector Development Program (II) (ODA loan) JPY 9,293 million (March 2009)
- Philippines: Development Policy Support Program (II) (ODA loan) JPY 9,293 million (March 2009)
- Indonesia: advisor on economy, fiscal and monetary policy; on labour policy; on improvement of employment service; on promotion of SME cluster (development study); on the promotion of local industry in South Sulawesi

In addition to JICA's on-going operation mentioned above, JICA is formulating additional programmes / projects considering a balanced approach of social and economic policies. Apart from bilateral ODA operations, the Japanese government announced its contribution through multilateral frameworks (including general capital increase of ADB, promotion of multilateralism of the Chiang Mai Initiative, and others) as well as bilateral Other Official Flows (OOF) operations.

4.10 Spain

The Spanish government's 'Plan E' in response to the global and financial crisis contains two measures relevant for developing countries:⁷⁰

- SME funding. Two credits lines will be issued, one worth €40 million and another through agreements between sector-specific business associations and chambers of commerce. Credit insurance terms provided by these agreements will offer more advantageous conditions than those offered in the market.
- The Africa Plan for Infrastructure Exports, worth €100 million.

During the London G-20 summit, Spain committed \$4 billion to the IMF. Spain also announced at a January 2009 conference that it would commit €1 billion to cope with the food crisis during the next five years, but this does not seem to be a response to the crisis.

4.11 Norway

Norway announced a number of measures and principles, so that developing countries are equipped to address the crisis.

- It argues that it is important to honour aid commitments to developing countries. Norway will in the coming budget year continue to give 1 percent or more of GNI in development assistance and it urges other donors to live up to their commitments.
- The Norwegian Government proposed in the Revised National Budget in May 2009 an additional allocation of NOK 200 million to address the negative consequences of the financial crisis in poor countries. These funds will be channeled via the development budget to the countries that are most poorly equipped to meet the crisis.⁷¹ An allocation of NOK 200 million to address the negative consequences of the financial crisis in poor countries:
 - NOK 60 million to countries in Africa.
 - NOK 50 million to the World Bank's efforts to address the financial crisis in poor countries.
 - NOK 40 million to the United Nations High Commissioner for Refugees (UNHCR).
 - NOK 30 million to the International Labour Organization (ILO).

⁷⁰ <http://www.plane.gob.es/>.

⁷¹ For further details, see <http://www.regjeringen.no/en/dep/ud/press/News/2009/rnb-financialcrisis.html?id=561959>.

- NOK 20 million to the World Food Programme. In addition, the Government will increase its funding to UNICEF by NOK 50 million to a total of NOK 450 million.
- In the current economic crisis, the role of the IMF and the Multilateral Development Banks (MDBs) in helping developing countries to gain access to finance is vital. The IMF and the MDBs can substantially increase their lending and capital flows to developing countries. Steps by the donor community should be taken to ensure that the IMF and the MDBs are capable of meeting borrowing needs of member countries that might arise – including needs of developing countries. Norway further believes that the current process of reform should be used to strengthen the relationship and cooperation between the UN and the World Bank and the IMF.
- Norway has recently offered a 30 billion NOK (\$4.6 billion) loan to the IMF. Norway is also considering potential further increases for earmarked short-term arrangements for low-income countries within the Fund.
- An increase of NOK150 million (\$23 million) in non-concessional terms in the GIEK primary capital fund, in order to increase GIEK's developing country scheme to NOK1 billion (\$153.2 million). GIEK is the Norwegian agency responsible for guarantees and insurance of export credits. This allocation was one of the measures in the 20 billion NOK national fiscal stimulus package presented by the Norwegian Government in January 2009.
- An additional NOK100 million (\$15.3 million) in concessional resources allocated to Norfund and earmarked for clean energy infrastructure projects in developing countries.
- Norway has taken a leadership role in the fight against illicit capital flows and tax evasion and aim for increased attention to these issues within multilateral fora such as the UN, OECD and G20.

4.12 Denmark

Denmark is committed to providing 0.82% of GNI in ODA in 2009. Denmark is committed to a poverty-oriented policy response to the crisis, and has examined the vulnerability of partner countries to the crisis in order to ensure an effective Danish policy response. There will be no increase in aid in addition to the 0.82% of GNI.

Denmark encourages multilateral development banks and other multilateral organisations to frontload their assistance to ensure available resources, whilst keeping to the principles in the Paris Declaration and the Accra Agenda for Action (based on a non-paper):

- Stimuli-package targeted towards LDCs aiming to focus on a short term crisis responses based on individual country needs and provide social protection for the poorest; and the long-term goal of promoting sustainable development;
- Providing more, faster and more flexible resources; donors need to honour their commitments of 0.7% of GNI in ODA; a strong monitoring commitment; frontloading aid at country level; using IBRD and IFC to secure additional resources and complying with the principles of aid effectiveness
- Reinforced co-operation amongst multilateral institutions, including joint monitoring of the vulnerability response and establishing country crisis task forces within the donor framework.

In 2008, Denmark initiated the Africa Commission, which proposes an African Guarantee Facility in partnership with the AfDB to foster growth of financial resources available for SMEs and for capacity development of financial institutions.

4.13 Germany

Germany has responded in two ways:

- Asking for multilateral responses:
- Contributed through its own programmes (some of which are multi-country).

What Germany has asked for with regards to the multilateral responses

Germany supported a call for:

- Reform of the global financial and economic architecture and greater voice in international decision making structures for developing countries.
- Creation of an Intergovernmental Panel at the UN.
- More funding for developing countries: ensuring ODA commitments are kept, strengthening innovative Instruments for financing development (e.g. Emission trading, innovative debt swaps, levy on financial transactions) and fighting tax evasion and avoidance.
- Implementing the Global New Deal: ensure anti-cyclicality of public investments, ensuring that national stimulus packages take international concerns into account.
- Completion of the Doha Round
- Ensuring debt sustainability: increase in MDB lending during the crisis and support the MDBs in having the resources needed to avoid a disruption of concessional financing to the most vulnerable countries.
- Improving international financial regulations, appropriate to the specific requirements of developing countries.
- Improving financial inclusion, client protection and financial literacy, to ensure the poor and excluded are given access to finance.

Germany itself has contributed:

- Up to \$ 600 million for the IFC Infrastructure Crisis Facility
- Around \$ 166 million US dollars for the Microfinance Enhancement Facility.
- Support for Multilateral Development Banks, e.g. a 200% capital increase of the Asian Development Bank which was approved in May 2009, while negotiations at the AfDB, CDB, and IDB are underway and expected to be concluded in the first half of 2010.
- Support for Germany's multilateral initiatives such as regional MSME Investment Fund for Sub-Saharan Africa (REGMIFA), the Currency Exchange Fund TCX, the TA-Trust Fund Financial Sector Reform Initiative (FIRST), the Access to Microinsurance Initiative as well as the regional Partnership for Making Finance Work for Africa.

Germany response through its own aid programming

- Germany has not made major changes to the direction of its overall aid programming, but it has analysed the changing conditions in its partner countries. The large variance in the form and extent of the impact of the crisis suggests that a measured and adjusted response is important.
- Examples of ongoing or planned changes (depending on partner countries) within the programmatic include (both social and economic initiatives):
 - Moving forward and/or increasing the dispersal of budget support
 - Accelerating the approval or implementation of planned programmes
 - Implementing Infrastructure Programmes and Infrastructure investments (rural infrastructure, renewable energy, energy efficiency)
 - Adjustment of Programmes in crisis-relevant sectors. In particular Agriculture, Microfinance, Economic Policy, Financial management advisory work

- Strengthening regional or national programmes for sustainable economic development: Private sector promotion, economic policy advice, financial sector development programmes
- Strengthening or accelerating the implementation of programmes in social protection and microinsurance
- Strengthening programmes for food security

4.14 Sweden

Sweden provides a relatively high share of its GDP to ODA but will be facing cuts in the level of ODA in 2010. In July 2009, Sweden has assessed and revised its development cooperation programmes in the light of the global economic and financial crisis. An update was provided in September 2009.⁷²

Sweden has responded to the crisis in three ways:

- Identifying partner countries that are most vulnerable to the crisis;
- Developing a number of guidelines to respond to the crisis;
- Suggesting concrete measures to respond to the crisis.

In order to identify the more vulnerable partner countries, Sweden has conducted both a quantitative and qualitative assessment by looking at cross-country vulnerability assessments produced by the IMF, World Bank and European Commission, as well as at country teams' assessments. Sweden has jointly with the UK and Netherlands requested the Overseas Development Institute (ODI) to co-ordinate a number of country case studies in order to monitor the effects of the crisis and understand policy responses at the national level.

Sweden recognized its role to mitigate (not to stabilize) the effects of the current crisis through the following principles:⁷³

- *Do no harm – be predictable and long-term;*
- *Prioritise country programmes in order to preserve predictability and avoid creating uncertainties for partner countries;*
- *Scale up support with more direct mitigating effects and scale down support with less direct mitigation effects;*
- *[...] stick to principles of international development cooperation co-ordination and division of labour;*
- *Respond already in 2009 by additional measures to provide fiscal space for vulnerable countries and respond to pressing sector needs (e.g. emergency budget support, top-ups/frontloading of ongoing programs);*
- *Utilise the new loan and guarantee instrument fully where possible to protect crucial investments with financing problems.*

Sweden recognized the relevance and effectiveness of the ongoing country programmes in the current context, but called for a number of measures to respond to the economic crisis and handle the foreseen reduction in allocations 2010. For example:

- In Burkina Faso, it is suggested to frontload the health sector programme in 2009 and to make the new strategy 2010 focusing more on social protection needs.
- In Kenya, it is suggested to frontload the country programme in 2009 of up to an additional 30 MSEK. It is also proposed to increase funding to the labour intensive roads programme in 2010.

⁷² 'Implications of the global economic crisis for Sida's allocations of development co-operation', paper by Sida, 25 September 2009.

⁷³ 'Implications of the global economic crisis for Sida's allocations of development cooperation', paper prepared by Sida, 25 September 2009.

- In Mali, a new contribution to social protection is suggested for 2010 and further measures are going to be considered in the new cooperation strategy to be developed in 2010.
- In Mozambique, it is proposed to allocate 30-40 MSEK to a “One UN” programme for financing social safety nets within the existing frames in 2009.
- In Rwanda, the new cooperation strategy for 2009-2013 (180 MSEK per annum) targets rural livelihoods, employment creation and social protection and other measures aim to improve growth prospects through land reform and sustainable use of natural resources.
- In Tanzania, the disbursement of general budget support for 2009 has been fast-tracked.
- In Uganda, it is suggested to increase the country programme by 30 MSEK in 2009.
- In Zambia, a new rights-based programme was started in mid-2009 to support community based analysis on the effects of the global financial crisis among different locations and different livelihoods groups.
- In Cambodia, it is suggested to increase support to decentralization to 75 MSEK from 2009.
- In Bolivia, it is suggested to provide budget support for 2010 partly to finance the announced crisis mitigation package.
- In the DRC, it is suggested to carry on the newly decided cooperation strategy.
- In Liberia, it is proposed a limited general budget support 2010.
- In Sudan, it is suggested to reallocate the planned contributions to the Multi-Donor Trust Funds within the cooperation strategy.
- In Guatemala, it is proposed to increase the country programme by 20 MSEK in 2009.
- In Georgia, the proposal for cooperation strategy 2010-2013 has been revised in the light of has been scaled-up.
- In Moldova, the possibility to support the reform agenda of the new government to mitigate some of the effects of the crisis has been explored.

Thus, the overarching principle has been to safe-guard bilateral cooperation. Because Sweden spends a certain percentage of its GDP to ODA, and as GDP has been decreasing, the necessary ODA reductions in 2010 are suggested to be targeted towards the regional, global and research programmes in particular. However, Sida argues that these cuts are a consequence of decreasing ODA-levels and should not be interpreted as if global and research programmes cannot play an important role as a response to the financial crisis.

4.15 China

Little is known on this but Wen Jiabao, China’s premier, pledged \$10bn in new low-cost loans to Africa over the next three years at a China-Africa meeting in November 2009⁷⁴. The loan pledge was double a commitment made in 2006, and China would write off some loans to the poorest and most heavily indebted countries.

4.16 Summary

Table 1 summarises bilateral donor responses. There are four ways to look at these:

- **Aid volumes:** Some countries have cut their aid spending, e.g. Italy by 56% or Ireland by 24%, leading to cuts in their ODA/GNI ratios. Other countries are sticking by their (high) ODA/GNI levels (Denmark, the Netherlands), which implies cuts to planned ODA, e.g. by €600 million in the case of the Netherlands. There are also countries where aid is increasing, such as the UK, with both volumes and ODA/GNI ratios increasing. Japan and China might increase their aid significantly.
- **Aid programming:** Some countries are changing the allocation of aid across countries owing to the crisis (e.g. the Netherlands). Others report that no major changes are happening to the

⁷⁴ <http://www.ft.com/cms/s/o/96360102-cc6f-11de-8e30-00144feabdco.html>.

bilateral programmes, such as in Germany. It is not clear whether countries are changing their within-country programmes. Some are increasing their relative spending through the multilateral channels (the Netherlands, Norway).

- **New initiatives:** Bilaterals support new, often multilateral, initiatives for the IMF, the World Bank's vulnerability fund and increased spending to social protection (Australia) and infrastructure. There does not appear to be an overall bias and the donor interest in certain areas may prevail.
- **Other issues:** Many donors are actively reassessing their aid allocations, e.g. in Australia using a Global Recession Taskforce, are doing vulnerability assessments (e.g. UK, Denmark) and have launched White Papers (e.g. UK).

Table 1: Bilateral donor responses – illustrative examples

	Aid volumes and budgets	Strategy/ policy changes	Reprogramming within countries	Reprogramming across countries	New instruments/ increased spending
UK	Existing budgets maintained; in absolute terms ODA targets for 2010 and 2013 reaffirmed	Vulnerability assessment White Paper policy statements Reviewed country programmes	In 2009/10 and 2010/11: Ethiopia (£15 million for social protection) Bangladesh and Mozambique ('additional funds for social protection') Kenya and Ethiopia ('scaling-up' of emergency aid) Bangladesh (£2 million brought forward for education) Pakistan (financial inclusion, social protection)	Where agreed with partner governments; not expected to be large	Bilateral social protection up by £50 million in 2009/10 and 2010/11 £97 million for regional infrastructure in Africa £26.5 million for basic services in Kenya £17 million in Ethiopia for education and health
Ireland	Aid budget cut by 24% between 2008 and 2009 (0.59% to 0.48% of GNI) Maintaining 0.6% by 2010 and 0.7% by 2012 targets		Anecdotal evidence (from Uganda) suggested same cuts across the board		
Australia	ODA to reach 0.34% of GNI in 2009/10 then 0.4% of GNI by 2012/13 and 0.5% by 2015/16	Global Recession Taskforce for aid response Action Plan for Responding to the Global Recession Reviewed country programmes			Food Security through Rural Development (AU\$464.2m over four years) Economic Infrastructure (AU\$454.2 million over four years) Three priority areas: employment and growth; supporting health and education services; and protecting the vulnerable
Netherlands	ODA cut by 11% or €600 million, but remains at 0.8% of GDP; higher relative cuts for bilateral programmes	Increased interest in reducing global imbalances and the growth and equity agenda		Relative programming towards fragile states (no cuts), away from better-off countries (25% cuts)	More funds for, the IFC's Trade Liquidity Programme and more to FMO and ORIO facilities (to support the private sector)

US					The US government requested \$448 million in assistance for developing countries affected by the economic crisis from the ESF
Spain					Plan E contains SME funding, with one credit line worth €40 million and an Africa Plan for Infrastructure Exports worth €100 million Spain committed \$4 billion to the IMF and €1 billion to cope with the food crisis during the next five years
Japan	Additional ODA up to JPY 2 trillion (USD 20 billion)	Growth initiative towards doubling the size of Asia's economy in order for Asia to serve as a "centre of growth open to the world"			Emergency budget support loan up to JPY 300 billion (USD 3 billion) in cooperation with the World Bank and ADB
Norway	Committed to provide 1 percent or more of GNI in development assistance	Supporting multilateral and own initiatives			An increase of NOK150 million (\$23 million) in non-concessional terms in GIEK's primary capital fund A NOK30 billion (\$4.6 billion) loan to the IMF An additional NOK 100 million (\$15.3 million) to Norfund, earmarked for clean energy infrastructure projects The Revised National Budget in May 2009 an additional allocation of NOK 200 million to address the negative consequences of the financial crisis in poor countries, most of which goes to multilateral initiatives
Denmark	Committed to providing 0.82% of GNI in ODA in 2009	Committed to a poverty-oriented policy response to the crisis and has examined vulnerability of partner countries to the crisis			
Germany		Support for multilateral initiatives and possible revisions to bilateral programmes	No major changes to the direction of its overall aid programming, but it has analysed the changing conditions in its partner countries.		
Sweden	Spends high share of GDP on ODA, and will be facing cuts in ODA levels for 2010	Vulnerability assessment Development of principles to guide the response to the crisis (e.g. prioritise country programmes) Maintain stability in country programmes, possible cuts in	Burkina Faso (health sector programme in 2009 frontloaded and new strategy 2010 more focused on social protection needs) Kenya (country programme in 2009 frontloaded up to an additional 30 MSEK) Tanzania (disbursement of general budget support		Considering support for new global initiatives.

		its support for multilateral programmes	<p>for 2009 fast-tracked)</p> <p>Uganda (country programme in 2009 increased by 30 MSEK)</p> <p>Cambodia (support to decentralisation increased to 75 MSEK from 2009)</p> <p>Liberia (general limited budget support for 2010)</p> <p>Guatemala (country programme in 2009 increased by 20 MSEK)</p>		
China	Increase of \$10 billion in loans for Africa				

Sources: Donor websites and related documents, OECD reports (see main report).

5. Discussion

This final section discusses some issues that are frequently raised about donor responses to the global financial crisis.

International Monetary Fund

- It is unclear whether the IMF would be able to respond this fast in a future crisis, as the backdrop was very low pre-crisis lending.
- MICs' voices could be increased at the expense of those of LICs, particularly if developed countries have not reduced their share. However, in Istanbul in October 2009, the International Monetary and Financial Committee (IMFC) committed "to protecting the voting share of the poorest members."⁷⁵

World Bank

- The World Bank is often seen as less responsive in the wake of the crisis (although the IBRD is much faster than the IDA), and actions are less visible than those of the IMF and other regional institutions.
- Some suggest that the World Bank, and the IDA in particular, should have a crisis window, so that the IDA could respond adequately and quickly in times of crises.
- There is insufficient clarification on the range of instruments available as well as the process of accessing the new mechanisms established to respond to the financial crisis.
- The World Bank could develop instruments in collaboration with the regional institutions, to encourage regional integration as well as exploit regional knowledge and timely responsiveness of regional institutions.
- Some countries have received financial support very rapidly, while others note that World Bank support has been sluggish. It has been suggested that, although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow.
- Country ownership should be more central to World Bank programmes, because there seems to be a noticeable prioritisation of social investment over infrastructural investment – the latter often considered a key priority of partner countries.
- World Bank instruments could be tailored more appropriately to individual country needs, including those of post-conflict countries, and include instruments that can respond rapidly to the expenditure needs of individual countries, including post-conflict countries.

United Nations

- Responses were initially slow, apart from conferences and vulnerability studies.

European Commission

- While the EC has been quick to get a Communication out, some of the implementation of the ideas depends on actions by the Member States.

Bilaterals

- Overall, we expect to see a substantial decline in ODA compared with projected levels for 2009 and 2010. This is a problem, since we would expect the international system to play a countercyclical role, not pro-cyclical.
- A number of donors, however, are reorienting spending towards international initiatives (e.g. multilaterally the IMF, IFC or the WB's VFF, or bilaterally in the case of the US's ESF) consistent with the idea of global solutions for global challenges.
- There is evidence that bilaterals are reconsidering their bilateral commitments much more slowly than they are making efforts to change multilateral responses, consistent with the idea that bilateral spending may not be the most appropriate tool to respond, and favouring predictability, but some bilateral donors have prioritised social issues.

⁷⁵ For further details, see <http://imf.org/external/np/sec/pr/2009/pro9347.htm>.