

A Stimulus Package for the World

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Within his first 100 days, President Obama will attend his inaugural global summit meeting: an April gathering of the Group of 20 industrialized and developing nations in London. The president, with bipartisan backing in Congress, should send an audacious signal of hope. Starting with the United States, Mr. Obama should call for each developed country to pledge 0.7 percent of its stimulus package to a vulnerability fund for assisting developing countries that can't afford bailouts and deficits.

The United States could begin by pledging some \$6 billion of its own \$825 billion stimulus package' just 4 percent of what was provided to American International Group. With this modest step, the United States would speed up global recovery, help the world's poor and bolster its foreign policy influence.

There is no time to waste. The economic crisis has already pushed an estimated 100 million people back into poverty. Slumping exports have helped imperil the jobs of workers around the world. In many places foreign and domestic investment is frozen. So far we have avoided the currency collapses of 1997 and 1998, but 2009 will be a dangerous year.

The good news is that if Mr. Obama sends the right signal, many countries are likely to contribute to a vulnerability fund. British Prime Minister Gordon Brown has expressed interest in the idea. Last year President Nicolas Sarkozy of France called for an increase in aid, and has taken a particular interest in Africa. Chancellor Angela Merkel of Germany wants to help finance construction projects in poor countries.

Japan has already pledged to help the World Bank recapitalize banks in poor countries. Australia and Russia have supported a food vulnerability fund that we created last year. Canada has been increasing its aid; the European Commission has been debating over contributing more assistance. Last year, Saudi Arabia gave an emergency \$500 million grant to the World Food Program.

Italy, as the host of the Group of 8 industrialized nations finance ministers' meeting next month, should pave the way for the Group of 20 meeting by making the drive for a vulnerability fund a priority. The World Bank, with the United Nations and regional development banks, could then manage the fund to facilitate fast and flexible aid delivery, backed by safeguards to ensure that the money is well spent. There are three priorities for vulnerability fund investments. First, we need safety net programs that are aligned with the developing country's ability to put them to good use. Over the past year as food and fuel prices soared, the World Bank worked with United Nations agencies to increase food-for-work programs, seed and fertilizer projects, maternal and child nutrition programs and other assistance.

We have committed nearly \$1.2 billion for projects like a school meals program for more than 30,000 children in Haiti, a cash-for-work program in Sierra Leone for road work and drainage, and grants for farmers in Rwanda to buy fertilizer. These investments in health, education and nutrition are more than just temporary poverty relief. They are investments in human capital. The vulnerability fund would help expand these modest shock absorbers for the poor.

Second, investments in infrastructure can yield huge benefits. Just look at China, which demonstrated 10 years ago that wisely chosen infrastructure projects can create jobs while building a foundation for productivity and growth. The World Bank is increasing support for such projects to \$15 billion a year over the next three years. This includes financing for low-carbon technology projects as well as public-private partnerships that will create jobs while improving the delivery of basic services.

Third, the vulnerability fund would help support small and medium-sized enterprises and microfinance institutions. Small businesses are the most dynamic and flexible employers, and the best safety net is a job. Small businesses operate where Wall Street, and even Main Street, give way to villages with no streets. The credit contraction squeezes out small businesses and their lenders, while state-owned enterprises and big companies get bailed out. The World Bank has already responded to the global crisis with plans to recapitalize small banks in developing countries, as well as by providing credit lines for microfinance institutions that serve the poorest people. The vulnerability fund would continue these initiatives.

The conventional wisdom is that Congress can't be bothered with foreign assistance. In reality, prodded by churches, schools and community groups, both Democrats and Republicans have generously backed well-run programs to improve nutrition and fight hunger, AIDS, malaria and tuberculosis. Congress has supported microfinance and small business development worldwide. There is an additional incentive for America to help: building projects abroad are likely to increase demand for American-made equipment.

Poor people in Africa should not pay the price for a crisis that originated in America. The total aid from developed countries is about \$100 billion a year, a modest sum in light of developing countries' needs. The United Nations target for aid is 0.7 percent of an economy. The United States contribution is about 0.2 percent, although polls consistently show the American public is willing to contribute much more.

Support for a vulnerability fund can help limit the depth and length of the international downturn, prevent the contagion of social unrest and help save a generation from a new poverty trap. For less than 1 percent of America's stimulus package, President Obama can lead the G-20 in London and reintroduce America to the world.

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