

## Zoellick Calls for 'Vulnerability Fund' Ahead of Davos Forum

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**Zoellick calls for developed countries to dedicate 0.7% of their economic stimulus packages to a "Vulnerability Fund" for developing countries**

**Poor countries feel the impact of the global financial downturn but can't afford stimulus packages developed countries are planning**

**The Vulnerability Fund could help developing countries by funding investments in key areas: infrastructure, safety nets, SME financing**



Vulnerability Fund: The 0.7 Percent Solution

**January 30, 2009**— World Bank President Robert B. Zoellick has a message for the world as heads of state, CEOs, policy-makers and economists gather in Davos, Switzerland, for perhaps the gloomiest World Economic Forum in the meeting's 39-year history.

Don't leave developing countries "out in the cold."

Zoellick wants developed countries to dedicate 0.7 percent of their economic stimulus packages to a "Vulnerability Fund" for developing countries suffering in the global downturn.

Such a fund could speed resources to existing World Bank, United Nations and regional development bank safety-net programs that give the poor access to health, education and nutrition services; build infrastructure such as roads, bridges and low-carbon technology projects; and support small and medium-size businesses and microfinance institutions that lend to the poor, says Zoellick.

"A target of 0.7 percent of each developed country's stimulus package represents only a tiny fraction of the hundreds of billions devoted to bank bail-outs, yet it could make a significant difference to the hundreds of millions who are victims of a crisis not of their making," Zoellick says in a January 25 [Financial Times](#) op-ed.

### Developing Countries Feel Impact

From the United States to Japan, wealthier countries are planning big stimulus packages to combat the financial tsunami. But the least developed countries cannot afford to do the same.

Africa, initially spared the effects of banking failures, is now facing declining capital flows, slowing remittances, stagnating foreign aid and falling commodity prices and export revenues, says World Bank economist [Shanta Devarajan on his blog](#).

"The continent will almost surely experience a deceleration in growth. And if history is a guide, this deceleration will have an impact on human development," says Devarajan.

An "unprecedented" fall in global production and 5 percent decline in world GDP in the fourth quarter of 2008 point to an outright fall in world GDP in 2009, even if there is a modest rebound in the second half of the year, according to World Bank researchers in the DEC Prospects group.

World trade volumes are now contracting sharply and are expected to fall in 2009 for the first time in 27 years, they say.

Investment growth in the developing world is projected to fall from 13 percent in 2007 to 3.5 percent in 2009, due to tighter credit conditions and less appetite for risk.

### Unemployment Rising

And the global unemployment rate could rise to 7.1 percent, up 1.4 percent from 2007, and reach 7.9 percent in the developed economies and European Union, according to a new [International Labour Organization report](#). That would translate to 51 million jobs lost under the report's worst case scenario.

While many developed countries are losing jobs at an increasing rate, including 70,000 cuts announced by several large firms on Monday alone, developing countries are suffering too.

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Democratic Republic of the Congo has lost an estimated 300,000 mining jobs. Brazil lost 654,000 jobs in December. China, which plans its own \$586 billion stimulus package, could lose [millions of jobs](#) in the new year.

### How a Vulnerability Fund Can Help

The Vulnerability Fund could help developing countries that can't afford bailouts and deficits by funding investments in three key areas:

- **Infrastructure projects** that would help put people in developing countries back to work while building a foundation for future growth and productivity.
- **Safety net programs**, such as conditional cash transfers that make it possible for people to keep their children in school, get adequate nutrition and seek health care.
- **Financing for small and medium-sized businesses and microfinance institutions** to help the private sector create jobs—the “best safety net,” says Zoellick.

The World Bank Group already has programs to rapidly finance [infrastructure](#) and [bank recapitalization](#), among other financial crisis responses, and is yielding [rapid results](#). Its [Global Food Response Program](#), developed in response to soaring food prices and increasing malnutrition last year, includes fast-track funding for social safety nets.

The Vulnerability Fund would use existing mechanisms to deliver the funds fast and flexibly, backed by monitoring and safeguards so the money is well spent, says Zoellick.

“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,” said Zoellick in a January 22 [New York Times](#) op-ed outlining the proposal.

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