DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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GLOBAL MONITORING REPORT 2010 – THE MDGS AFTER THE CRISIS OVERVIEW

Attached for the April 25, 2010, Development Committee Meeting is a background report entitled "The MDGs After the Crisis -- Global Monitoring Report," prepared by the staff of the World Bank and the International Monetary Fund. The full report will be available as a background document.

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Overview

What is the human cost of the global economic crisis? How many people will the crisis prevent from escaping poverty, and how many will remain hungry? How many more infants will die? Are children being pulled out of schools, not getting the education they need to become more productive adults and making it virtually impossible to reach 100 percent completion in primary education by 2015? What are the gender dimensions of the impacts? These are some of the questions as the global economy comes out of the worst recession since the Great Depression.

The questions do not have immediate answers—partly because the data to assess development outcomes are incomplete and collected infrequently but also because impacts can take several years to emerge. For example, deteriorating health and nutrition today could lead to higher mortality rates in subsequent years. Lower investments will hamper future progress in sanitation and water supply. Fewer children in school will lower completion rates in later years. And household incomes that fall far below the poverty line will delay escapes from poverty. This report uses indirect evidence to assess the impact of the crisis on several indicators, including the number of people who will not escape poverty, the increase in infant mortality, the number of children who will be denied education, and the increase in discrimination against women. Based on that assessment, the report identifies key policies necessary for the developing countries, donors, and the international financial institutions (IFIs) to reestablish progress toward the Millennium Development Goals (MDGs).

The MDGs provide powerful benchmarks for measuring global progress on key development outcomes, calling attention to the enormous challenges in low-income countries. The goals have likely contributed to the progress itself, galvanizing governments, donors, civil society, private agencies, and the media to support human development. But uniform goals—reducing poverty by half, infant mortality by two-thirds, maternal mortality by three-quarters—can underestimate progress in poor countries. Why? Because the greater the distance to the goals from low starting points in poor countries, the greater the improvement needed to reach the targets. While the extent to which countries are on track to achieve the MDGs in 2015 varies widely, recent improvements have been widespread, as have the losses caused by the crisis.

From the 1990s until the onset of the crisis in 2008, developing countries, including low-income countries, made significant progress in human development. However, the crisis attacked two critical drivers of progress toward the MDGs: faster growth and better service delivery. The impact was undoubtedly negative because of the severity of the recession and the tendency for indicators of human development to decline much more in bad times than they improve in good times. But these asymmetric effects are estimated from past crises, which were often driven by internal shocks, such as domestic policy failures, conflict, and institutional breakdowns. By contrast, the current crisis was driven by an external shock, and policies and institutions in developing countries have improved considerably in the past 15 years. Moreover, many countries have maintained social safety nets in the face of the income decline. That is why the impact on the MDGs could be more moderate than in past crises.

Even so, the analysis and projections discussed in this report indicate that the deterioration in human development is severe, with effects likely to last for several years. This grim outlook has been taken seriously by the international community. The International Monetary Fund (IMF), the World Bank, and the regional multilateral development banks have sharply boosted their assistance to developing countries. Despite some increase in protectionist measures, developing countries have largely maintained their access to markets, and the very real danger of widespread beggar-thy-neighbor policies has been avoided. Although aid expanded through 2008, it was at levels far below what is needed to meet donor commitments for total aid and aid to Sub-Saharan Africa.

Policy responses to the crisis have repercussions that must be dealt with. The expansion of fiscal deficits—required to sustain demand in the depths of the recession—must be reined in by developing and advanced countries alike. Additional resources will be required so that the frontloading of concessional assistance and the rapid expansion in lending by the multilateral development banks do not result in a sharp decline in multilateral flows in the coming years. And shifts in the organization and staff expertise of the IFIs may be required to confront the challenges in the new global economic environment.

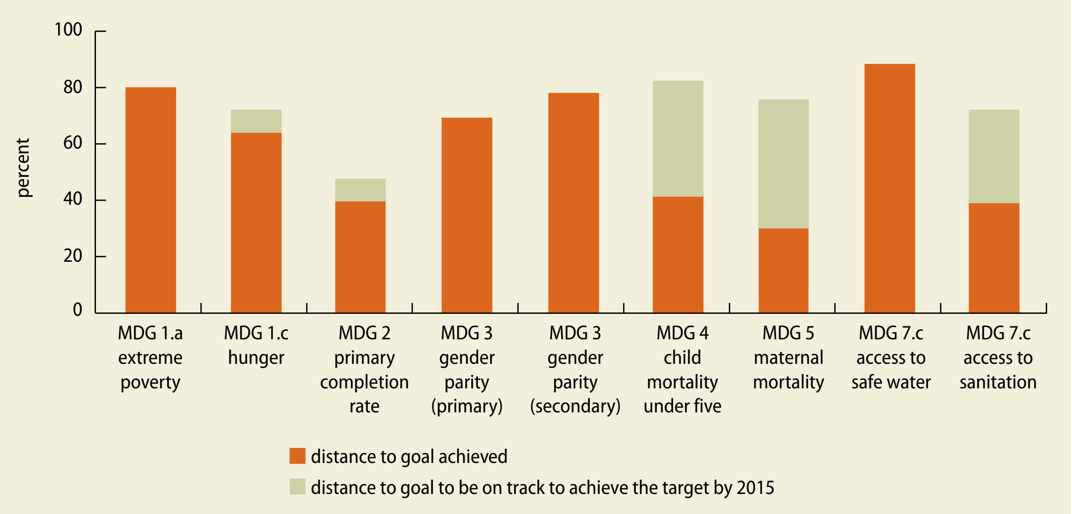
Ten years after the adoption of the MDGs, the international community is intensifying its monitoring of the progress toward these goals. The United Nations has called on member states to convene a formal summit on the MDGs in 2010 to review implementation of the agreement, and the leaders of the Group of Eight (G-8), meeting in L'Aquila in 2009 renewed their commitment to mitigate the impact of the crisis on developing countries.

The MDG indicators showed significant progress before the crisis

When the crisis hit, many countries had already made considerable progress in reducing extreme poverty. Globally, poverty had fallen 40 percent since 1990, and the developing world was well on track to reach the global target of cutting income poverty in half by 2015. Thanks to rapid growth, especially in China, East Asia had already halved extreme poverty. Although Sub-Saharan Africa was unlikely to reach the target, poverty had been falling rapidly since the late 1990s. The goal was more ambitious for Africa than for other regions, because the 1990 incomes of a large part of the African population were far below the poverty line. And Africa implemented reforms later than other regions and therefore benefited later from accelerating income growth.

Progress on MDGs outside poverty was uneven. Developing countries were on track to achieve gender parity in primary and secondary education and access to safe water, although countries were falling behind on gender parity in tertiary education and empowerment of women. Progress was good on primary school completion, nutrition, maternal mortality and (less so) sanitation, even if results at the global level were expected to fall short of targets (figure 1). The health goals appeared most challenging. Most regions were off track, with East Asia, Latin America, and Europe and Central Asia doing better than other regions.

FIGURE 1 **Serious global shortfalls loom for the human development MDGs**



Source: Staff calculations based on World Development Indicators database.
Note: Based on available data as of 2009, which can range from 2005 to 2009.

The crisis interrupted this progress, but the effects will not be apparent for many more years. Data needed to assess the degree of deterioration in development indicators will not be available for two or more years, and some impacts—for example, on mortality rates and school completion rates—will materialize only after several years. So this report uses historical examples and indirect evidence to assess the effects of the crisis on progress toward the MDGs.

Past crises generated exceptionally poor outcomes

The impact of economic cycles on MDG indicators is highly asymmetric. The deterioration in bad times is much greater than the improvement during good times (figure 2). Vulnerable groups—infants and children, especially girls, particularly in poor countries of Sub-Saharan Africa—are disproportionately affected during crises. For example, during contractions, female enrollment in primary and secondary education drops more than male enrollment. And the consequences of this disproportionate impact persist long into the future. Once children are taken out of school, future human capital is permanently lowered.

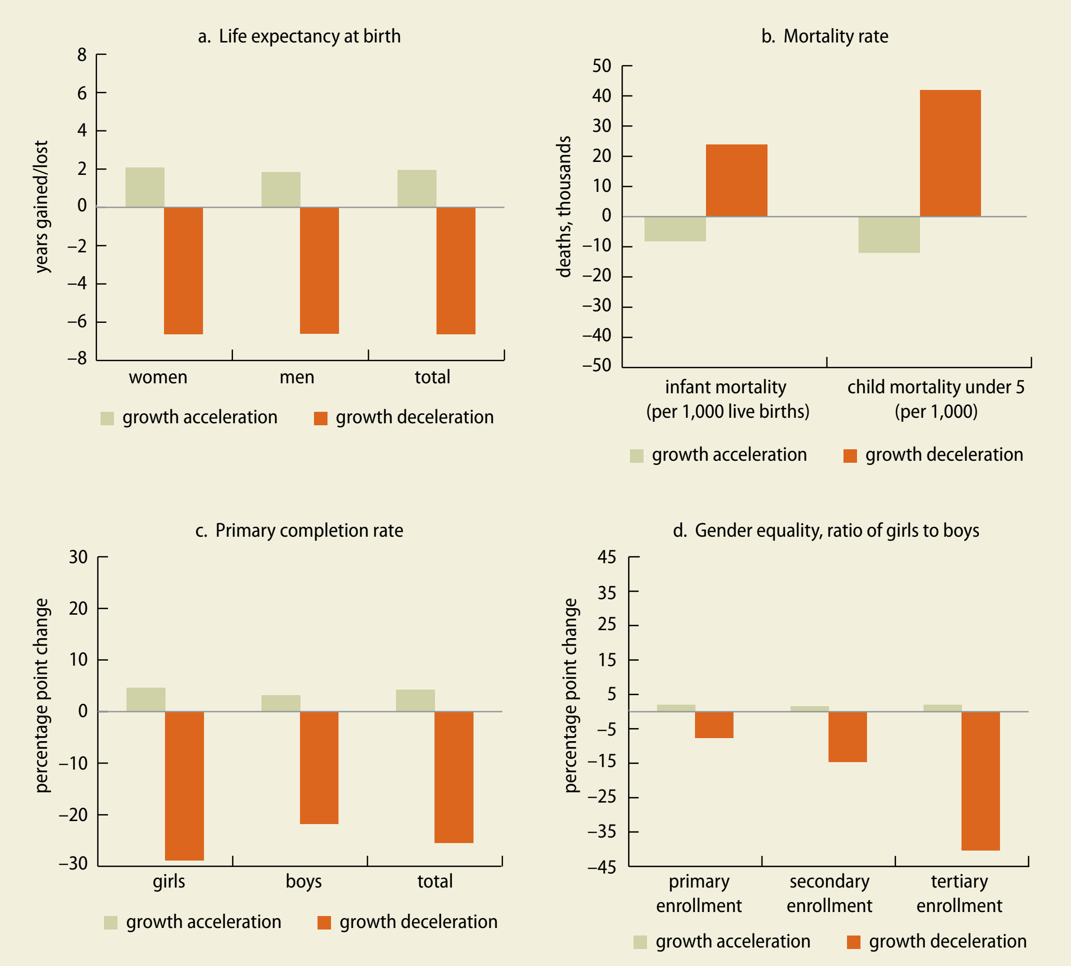
Several factors produce the asymmetric response.

- Economic indicators and quality of institutions and policy, such as political stability, voice and accountability, regulatory framework, rule of law, and government effectiveness, tend to decline sharply in downturns. Distinguishing cause and consequence is difficult, but vicious circles during crises are stronger than virtuous ones during prosperous times.
- Public and private spending on social services can easily be disrupted during economic crises, just when people need them most.
- Safety nets were uncommon in developing countries in previous crises.
- Donor funding also came under pressure if the crisis was global or if aid effectiveness declined during crises. But there is some evidence that official development assistance has provided countercyclical support since 2003.

Why this crisis may be different for low-income countries

Policies and institutions improved before the crisis. The economic performance of

FIGURE 2 Key indicators plummet from their overall mean during growth decelerations, all countries



Source: World Bank staff calculations based on data from World Development Indicators database. See chapter 2 for more details.
Note: The panels show differences of averages during growth accelerations and decelerations from overall averages.

developing countries is highly correlated with the quality of policies. Many countries entered the crisis with better policies and fiscal positions than they had in previous episodes of contraction.

Unlike many previous crises, the current crisis was not caused by domestic policy failure. Historically, almost 90 percent of the output volatility in low-income countries has been generated by internal conditions and shocks, such as policy failures and conflicts. Since the 1990s output volatility in low-income countries has lessened, and the relative frequency of external shocks has increased. Stronger institutions and policies in developing countries mean that they are better prepared to cope with shocks. Thus the impacts on human development outcomes may be less severe if conditions do not deteriorate and lead to widespread policy failures.

Spending on social safety nets has been relatively protected so far. Lower initial fiscal deficits and higher priorities for social spending have protected education and health spending in most countries. Up-to-date information is incomplete, but scattered information provides some examples. For example, of 19 programs initiated and monitored by the IMF and implemented in collaboration with the World Bank in 2008–09, 16 budgeted higher social spending for 2009. Of these, 9 were countries in Sub-Saharan Africa: Burundi, Republic of Congo, Côte d'Ivoire, Liberia, Malawi, Mali, Niger, Togo, and Zambia. Several African countries with poverty reduction strategies have protected their funding for social sectors. And some countries with fiscal space (Kenya and Nigeria) have protected capital expenditure, mainly for infrastructure. But there are also examples of forced contractions in social spending. Countries with precrisis fiscal and debt issues (such as Ethiopia and Ghana) had to undertake fiscal tightening. HIV/AIDS (human immunodeficiency virus/acquired immune deficiency syndrome) funding has been largely sustained, but with a new concern for the efficiency of resource use.

The international community responded strongly to the crisis

Despite widespread fears, developing countries' market access was not significantly reduced. At the end of 2009, 350 trade-restrictive measures had been put in place around the world, some 20 percent of them nontariff measures, such as quantitative restrictions, import licenses, standards requirements, and subsidies. Trade remedies were also on the rise. But in the aggregate, protectionism has been contained. The trade-restricting or -distorting measures introduced since October 2008 have amounted to only about 0.5 percent of world merchandise trade. Governments and multilateral development institutions supported developing countries' exports by bolstering trade finance. The Group of Twenty leaders pledged $250 billion in support of trade at their April 2009 London Summit; the World Bank Group provided guarantees and liquidity for trade finance through the International Finance Corporation's Global Trade Finance Program and Global Trade Liquidity Program. And export credit agencies stepped in to prevent a complete drying up of trade finance.

A massive IMF rescue was designed to limit economic contraction and contagion. The global nature of the crisis led the IMF to act swiftly to boost lending and modify conditionality frameworks. By the end of February 2010, the IMF had committed a record high $175 billion (including precautionary financing) to emerging and other developing countries with balance of payments difficulties; the commitments included a sharp increase in concessional lending to the world's poorest countries. The IMF also implemented a general allocation of special drawing rights equivalent to $250 billion, including almost $100 billion to emerging market economies and developing countries, $18 billion of it to low-income countries. Standard access to IMF financing has been doubled, a new flexible credit line without ex post policy conditions for countries with very strong track records has been adopted, and the provision of exceptionally large loans has become easier, while safeguards have been preserved.

Responses by multilateral development banks have sought to protect core development programs, strengthen the private sector, and assist poor households. More than $150 billion has been committed since the beginning of the crisis (two-thirds from the World Bank Group). International Bank for Reconstruction and Development (IBRD) lending almost tripled in fiscal 2009, and the first half of fiscal 2010 shows the strongest IBRD commitments in history ($19.2 billion, up from $12.4 billion in the same period in fiscal 2009). Commitments by the regional multilateral development banks also increased sharply, by more than 50 percent from 2007 to 2009. Low-income countries tapped more deeply into multilateral concessional resources in 2009, in part through frontloading multiyear allocations.

Donors increased aid volumes in real terms through 2009. Following an 11.7 percent increase in 2008, total net official development assistance (ODA) from the OECD's Development Assistance Committee (DAC) countries rose slightly by 0.7 percent in real terms in 2009. But in current U.S. dollars, it actually fell from $122.3 billion in 2008 to $119.6 billion in 2009. The 2009 figure represents 0.31 percent of members' combined gross national income (GNI). Aid from non-DAC donors, led by Saudi Arabia, rose 63 percent in real terms in 2008 to $9.5 billion.

Development assistance from China will likely more than double in the next three years. Private aid, also substantial, is rising rapidly. And progress continued in reducing poor countries' debt burden through the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative. For 35 post-HIPC-decision-point countries, the debt burden will be reduced by 80 percent.

The recovery is stronger than expected, but the outlook for the MDGs remains worrisome

GDP growth in emerging market and developing economies is projected to accelerate to 6.3 percent in 2010. Most economies show signs of recovery (table 1), although many countries remain dependent on exceptional policy stimulus, and in most countries growth is not strong enough to undo the damage caused by the sharp deceleration in incomes and social conditions in 2009. Fiscal deficits in emerging market and developing economies rose by almost 3 percent of GDP in 2009 and are projected to remain high in 2010. Financial market conditions for these economies are improving and capital flows are returning, although international bank financing and foreign direct investment flows are projected to remain weak in 2010. The rebound of commodity prices in tandem with the global recovery in manufacturing production has supported commodity exporters, but commodity prices remain below their precrisis levels.

Trade is recovering unevenly across regions. World trade contracted by 12 percent in 2009, and all regions experienced deep declines in imports. Signs of recovery are evident, but trade remains fragile. At the end of 2009 global trade was still below its precrisis level. Almost a year into the recovery, the dollar value of global trade remains 20 percent lower than it was before the crisis.

The impact of the crisis on poverty will be long lasting. Poverty rates will continue to fall after the crisis, but more slowly (table 2).[1] By 2015 the global poverty rate is projected to be 15 percent, not the 14.1 percent it would have been without the crisis. The crisis will leave an additional 64 million people in extreme poverty by the end of 2010. The recovery will not make up all the lost ground. And as a result of the crisis, 71 million fewer people will have escaped poverty by 2020. For Sub-Saharan Africa, the poverty rate is expected to be 38 percent by 2015, rather than the 36 percent it would have been without the crisis, lifting 20 million fewer people out of poverty.

The medium-term impact on other MDGs may also be considerable. Illustrative and indicative results from growth analyses[2] suggest persistent gaps between precrisis and postcrisis trends in 2015 (figure 3):

- An additional 55,000 infants might die in 2015. And 260,000 more children under five could have been prevented from dying in 2015 in the absence of the crisis. The cumulative total from 2009 to 2015 could reach 265,000 and 1.2 million, respectively.
- An estimated 350,000 more students might be unable to complete primary school in 2015.

TABLE 1 Global output

percent change

Region	2007	2008	2009	Projections 2010	Projections 2011–13
World output	**5.2**	**3.0**	**–0.6**	**4.2**	**4.4**
Advanced economies	2.8	0.5	–3.2	2.3	2.4
Emerging and developing economies	8.3	6.1	2.4	6.3	6.6
Central and Eastern Europe	5.5	3.0	–3.7	2.8	3.8
Commonwealth of Independent States	8.6	5.5	–6.6	4.0	4.1
Developing Asia	10.6	7.9	6.6	8.7	8.6
Middle East and North Africa	5.6	5.1	2.4	4.5	4.8
Sub-Saharan Africa	6.9	5.5	2.1	4.7	5.7
Western Hemisphere	5.8	4.3	–1.8	4.0	4.2

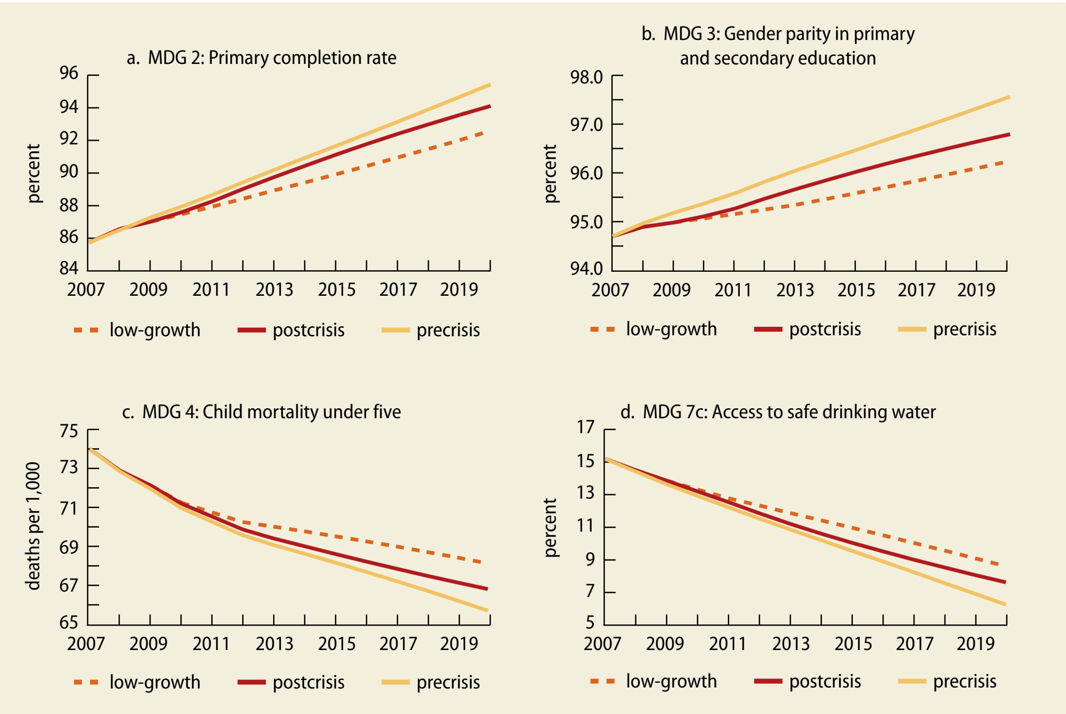
Source: IMF World Economic Outlook. See chapter 3 for further discussions.

TABLE 2 Poverty in developing countries, alternative scenarios, 1990–2020

Scenario	1990	2005	2015	2020
Global level				
	Percentage of the population living on less than $1.25 a day			
Postcrisis	41.7	25.2	15.0	12.8
Precrisis	41.7	25.2	14.1	11.7
Low-growth	41.7	25.2	18.5	16.3
	Number of people living on less than $1.25 a day (millions)			
Postcrisis	1,817	1,371	918	826
Precrisis	1,817	1,371	865	755
Low-growth	1,817	1,371	1132	1053

Source: World Bank staff calculations.

FIGURE 3 The long-run effect of slower growth on selected MDGs is worrisome



Source: World Bank staff calculations.

- Some 100 million more people might remain without access to an improved source of water.

Developing countries must maintain good policies and effective service delivery

Growth and institutional quality reinforce each other. Before the crisis, policy reforms triggered an impressive acceleration of growth in the developing world, which in turn helped to strengthen institutions and economic fundamentals. One of the dangers of the crisis is that reforms might be abandoned, leading to policy reversals and a deteriorating economy. It is important that all countries adopt credible medium-term fiscal adjustment plans to bolster confidence in macroeconomic policies and that they undertake policy reforms to secure long-term growth.

The effectiveness of safety nets should be enhanced given their importance in cushioning the effects of crises and in reducing poverty. Safety net programs in low-income countries are often small and fragmented, covering only a small percentage of the poor and vulnerable. There are real concerns about whether they are affordable and administratively feasible in light of the various negative incentives they might create. Understanding what kind of safety nets will serve social assistance best, what their implementation challenges are, and how to develop such programs for maximum effectiveness should inform policy reforms in developing countries.

If the global recovery remains weak, spending shifts, internal resource mobilization, and better service delivery can help, but these tools have limits. In the face of declining external revenues, shifting expenditures to protect social services and increasing domestic tax collections can keep the MDG indicators from deteriorating to a worst-case level. But higher taxes can also retard progress on the poverty MDG by reducing household income and spending. The negative effects of a tax increase need to be offset by better policies and service delivery. Even so, better development outcomes hinge critically not only on a better policy environment but also on a rapid global recovery that improves the export conditions, terms of trade, and capital flows for low-income countries.

The global community must continue to support developing countries

Multilateral cooperation in trade must be strengthened. Completion of the Doha Round is important in the aftermath of the crisis, because it would help governments resist protectionist pressures and keep markets open as expansionary policies unwind. Beyond Doha, there is a need to broaden cooperation on cross-border policy matters that are not on the Doha Development Agenda (climate change, and food and energy security). The crisis has also revealed the importance of strengthening monitoring and public reporting of government measures to increase transparency in the trading system (Global Trade Alert, Global Antidumping Database, World Trade Organization [WTO] monitoring reports).

Better monitoring of trade finance is needed. Although recent data indicate that trade finance is recovering, a mechanism is needed to collect data and monitor the market systematically and reliably—to assess how current interventions influence the supply of credit and trade flows, and to provide a useful early warning of stress in trade credit.

Developing countries' trade logistics need further support. Lowering trade costs through better trade regulations, trade logistics, and infrastructure can make a critical contribution toward development. The Second Global Review of Aid for Trade in Geneva in July 2009 found that donors were offering more and better aid for trade and that cooperation between developing countries is engaging new partners. Sustaining efforts to deliver on the commitments at the 2005 WTO Ministerial Meeting (in Hong Kong, China) to expand aid for trade should continue to be a priority. And more such aid needs to be directed to low-income countries, which receive only about half the total.

Aid has to expand to meet previous commitments. The expected medium-term impact of the crisis on low-income countries has heightened the urgency to scale up aid. But current donor spending plans leave a $14 billion shortfall in the commitments to increase aid by $50 billion by 2010 (in 2004 dollars). And the Group of Eight Gleneagles commitment to double aid to Africa by 2010 has yet to be reflected in core development aid to the region. Aid to Africa has grown 5 percent annually since 2000, but much of it has been in the form of debt relief or emergency and humanitarian assistance, not new finance. Reaching the 2010 target requires a further increase of $20 billion. Donor spending plans indicate that only an additional $2 billion is programmed, leaving a gap of $18 billion. Moreover, considerable scope remains for strengthening aid effectiveness by making aid more predictable; rationalizing the division of labor among donors; untying aid from the provision of goods and services in the donor country; increasing reliance on need and merit to guide aid allocations; and addressing the problem of countries that receive too little aid.

Necessary reactions to the crisis raise further policy challenges

Developing countries' fiscal positions deteriorate. Several developing countries maintained spending and expanded fiscal deficits to support domestic demand during the crisis. Indeed, more than one-third of these countries introduced discretionary fiscal stimulus plans in 2009. Absent such support, the impact on individual countries' growth and the shortfall in global demand would have been even greater than they were. But the rapid expansion of fiscal deficits and greater reliance on domestic finance in many countries may not be sustainable. The deterioration in debt ratios in low-income countries is particularly worrisome.

Optimal exit policies from policy support depend on country circumstances. Countries with weak private demand should continue policy support if they have the fiscal space. But countries facing financing constraints cannot delay adjustment. Donors should assist them by meeting their commitments to increase aid. All countries should adopt credible medium-term fiscal adjustment plans to bolster confidence in macroeconomic policies and undertake policy reforms to secure long-term growth.

The international financial institutions need to adapt to the new global environment. In the absence of increased resources from donors, the crisis-induced frontloading of concessional resources by the International Development Association and other multilateral agencies implies that concessional flows from these institutions must decline in the near future. Similarly, the sharp rise in IBRD commitments highlights the need for discussing a capital increase to avoid an eventual falloff in lending. Changes in responsibilities and organization of the IFIs are on the horizon: increased demand for technical services will shift requirements for staff expertise; coordination among the IFIs will need to be strengthened; and proposals to improve the responsiveness of the multilateral development banks (such as decentralization at the World Bank) are under consideration. The rapid response of the global economic community to the downturn helped avoid a new Great Depression, but decisive leadership still is required to ensure a rapid and sustainable recovery.

Issues for discussion

How do the Ministers assess the long-term implications of the global economic recession for developing countries—their growth, poverty reduction, and other MDGs?

- What do Ministers see as priorities for developing countries in order to achieve the MDGs in the postcrisis recovery—in protecting the poor and vulnerable, in promoting growth, and in terms of policy reforms to improve the effectiveness of service delivery?
- What do Ministers see as priorities for the international community to help developing countries regain the momentum for achieving MDGs—on development assistance, on trade access and policy, and affordable private capital flows?
- What do Ministers see as priorities for the international financial institutions, especially the World Bank and the IMF, in supporting the developing countries during the ongoing recovery and in sustaining the strong and quick responses undertaken during the crisis? What immediate actions are needed?

Notes

1. This projection is based on household surveys in more than 100 countries and on the effect of growth on household consumption.
2. These analyses are based on the estimated relationships between GDP growth and the MDGs, which can vary by country.