



# Conference on the World Financial and Economic Crisis and Its Impact on Development

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**General debate on the world financial and economic  
crisis and its impact on development**

## **The world financial and economic crisis and its impact on development**

### **Report of the Secretary-General**

#### *Summary*

This report responds to General Assembly resolution 63/277, in which Member States asked the Secretary-General to prepare a report on the origins and causes of the present world financial and economic crisis, the mechanisms of its transmission to developing countries, the potential impact of the crisis on development, the response of the United Nations to the crisis through its development activities and the national and international policy responses to date. The report comes as the world is faced with the worst recession since the 1930s. Although the crisis did not originate there, developing countries are being severely hit by it through weaker trade, tighter global financing conditions and lower remittances. Poverty and hunger are increasing and major reversals in hard-won gains towards the Millennium Development Goals are likely to be seen. Children, women, the working poor, migrants and people already at a disadvantage are most vulnerable. There is an increased risk of accelerated environmental degradation and social tensions are on the increase. The international community is urged to respond to this challenge by taking ambitious policy actions, reforming the system of international economic governance, and creating international institutional arrangements conducive to equitable and sustainable development.

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## I. Introduction

1. **The world is mired in its worst recession since the 1930s, with potentially grave consequences for human development.** The rapidly unfolding global financial and economic crisis has severely disrupted economic growth worldwide and is setting back progress towards achievement of the Millennium Development Goals and the other internationally agreed development goals. The most recent global forecast of the Department of Economic and Social Affairs of the Secretariat estimates that world income per capita could drop by 3.7 per cent in 2009.<sup>1</sup> If effective policy responses are not implemented in a timely fashion, unemployment rates could rise to double digits in some developed countries, and tens of millions of people in developing countries could become unemployed, while hundreds of millions of people could join the ranks of the working poor.

2. **The forthcoming United Nations conference at the highest level on the world financial and economic crisis and its impact on development will provide a useful opportunity to take stock of the causes of the crisis, consider existing policy responses and necessary reforms, and catalyse further concerted action.** The scale of the crisis implies the need for considered efforts to ensure that the already substantial impact of the crisis on the real economies of Member States is not matched by an extensive humanitarian disaster for the world's most vulnerable. In preparation for the conference, this report provides a review of the causes of the crisis and responses to date. The remainder of the report is divided into the following sections: section II considers the origins and causes of the crisis, as well as the mechanisms by which it has been transmitted to developing countries; section III reviews the current and potential impact of the crisis on development; section IV summarizes the United Nations and other international policy responses to the crisis; and section V is the conclusion.

## II. The setting: origins and causes of the present crisis

3. **The years prior to the crisis were characterized by high global growth and relatively stable and low inflation in most countries.** Growth was driven by substantial increases in productivity in many countries which, combined with the increased integration of developing countries into the global economy and a strong expansion in trade, also allowed prices to remain relatively flat for several years. Short-term interest rates also stayed low, reflecting accommodative monetary policy, while long-term interest rates were dampened by relatively high rates of savings in Asia and oil-exporting economies.

4. **This pattern of growth, coupled with deficient regulation, eventually led to over-leveraged financial institutions, businesses and households, which proved unsustainable.** Persistently low interest rates caused investors to search for higher yields in equities, housing and basic commodities. Asset prices were driven up across a broad range of industrialized and emerging economies, and many developing countries benefited from high commodity prices. Relatively low volatility and excessive optimism driven by years of strong growth led investors to move into ever-riskier assets. Deficient regulation allowed financial systems to

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<sup>1</sup> "World economic situation and prospects as of mid-2009" (E/2009/73). Also available from [www.un.org/esa/policy/wess/wesp.html](http://www.un.org/esa/policy/wess/wesp.html).

develop new structures and instruments that appeared to offer increased risk-adjusted returns, but were often far riskier — and systemically more dangerous — than they appeared. Adequate regulation might have stopped or slowed these developments, but such regulation either did not exist or was not exercised. Similarly, the surveillance capacity that might have identified these problems earlier has been fragmented and dispersed among numerous forums, institutions and regulators. Nevertheless, the United Nations system has for some years, in various publications such as the *World Economic Situation and Prospects* and the *Trade and Development Report*, repeatedly warned that mounting household, public sector and financial sector indebtedness, in the United States and elsewhere, reflected in wide global financial imbalances, would not be sustainable over time.

**5. The global search for higher yield was accompanied by mounting international financial imbalances.** High rates of saving in Asia and oil surplus countries financed high rates of consumption in the United States and some other industrialized countries. Capital flows from saving-surplus countries — including many emerging market countries — to the United States were further supported by perceptions that United States assets were both less risky and more liquid than other assets. Prior to the onset of the crisis, it was feared that a massive reversal in these capital flows could lead to a sharp drop in the United States dollar and wrenching adjustments in the global economy.

**6. Instead of being led by a run on dollar-denominated assets, the crisis arose from a sharp fall in global confidence in over-leveraged financial institutions and complicated asset structures.** Rather than a run on dollar-denominated assets, the crisis has seen an appreciation in the dollar. The large imbalances between Asia and industrialized economies are being unwound through a compression in industrialized country demand as credit is curtailed, the real economy is squeezed, and housing prices drop. In the context of a highly integrated global economy without adequate regulation, a breakdown in one part of the system has huge repercussions elsewhere, as we are witnessing today.

**7. Policymakers have responded with massive liquidity injections into the financial system and direct support to some major financial institutions.** Massive public funding, amounting to \$18 trillion or almost 30 per cent of gross world product (GWP),<sup>2</sup> has been made available to recapitalize banks, nationalize financial institutions and provide guarantees on bank deposits and other financial assets. Recognizing that monetary and financial measures will not be enough to stave off a recession, many countries, mostly developed but also some developing, have elaborated fiscal stimulus plans amounting, by April 2009, to about \$2.7 trillion (equivalent to about 4 per cent of GWP) to be spent over the period 2009-2011. This stimulus spending is intended to halt the slide into deeper recession and to provide new jobs.

**8. Continued vigilance will be needed to ensure that the present recession is not prolonged.** These bold policy responses are not expected to gain sufficient traction to prevent an economic downturn in 2009, but they could allow for some recovery in 2010. Yet the risk of a more prolonged global recession remains:

<sup>2</sup> The estimate includes financial rescue packages (including government guarantees on bad debts) and liquidity injections into financial systems from 1 September 2008 to 31 March 2009. See “World Economic Situation and Prospects”, Monthly Briefing No. 7 (2 April 2009). Available from [www.un.org/esa/policy/publications/wespmbn/sgrnote\\_7.pdf](http://www.un.org/esa/policy/publications/wespmbn/sgrnote_7.pdf).

problems in the financial and corporate sectors in major market economies persist, protectionist tendencies are on the rise, and business and consumer confidence are still down in most economies. More concerted international policy action is still needed.

**9. Developing countries are particularly adversely affected by the systemic flaws in the global financial system, but most are not in a position to respond to the impact on their real economies with the same counter-cyclical measures invoked by industrialized countries.** At lower levels of economic development, countries are generally more vulnerable to fluctuations in world markets. Developing countries typically have small reserves and have borrowed in foreign currency to finance their progress. When crises hit, they are often forced to pursue pro-cyclical monetary and fiscal policies to prevent capital outflows and a run on their currencies, which leads to greater volatility in their economic performance and adverse effects on long-term growth. This asymmetry between industrialized countries and developing countries in their latitude to respond to economic and financial crises is exacerbating global inequality and could stymie progress towards the achievement of the Millennium Development Goals.

### **III. Transmission mechanisms and the impact of the crisis on development**

**10. The ripple effects of the global economic crisis are quickly reaching the world's poorest and most vulnerable countries, and threaten to seriously undermine recent economic and social gains.** While the first waves of the world economic crisis were felt primarily in advanced and emerging economies, low-income countries — in contrast to previous crises — are now increasingly exposed to global downturns given their greater integration into the world economy through a variety of transmission channels. These channels do not, however, stop at the country level, but reach down to the most vulnerable population groups, who are often hardest hit and least able to cope with dramatic changes. In a time of global economic crisis, it is more important than ever that the plight of the most vulnerable countries and populations is properly understood and recognized. Our global responses need to take full account of the needs of countries and people who are highly susceptible to the ramifications of global shocks, but unable to respond. This section examines the transmission channels through which the economic and financial crisis has touched developing countries and considers the impact the crisis is having on development in those countries.

#### **A. Impact of declining trade, finance and remittances**

**11. Even though many developing countries were not directly exposed to the financial turmoil, they are being hurt through a variety of channels,** including collapsing trade, volatile commodity prices, capital flow reversals, increased borrowing costs, declining remittance incomes and strains on official development assistance. The downturn is having uneven effects; countries are being hurt in varying degrees, depending on their economic structure and vulnerability to shocks. The poorest countries are more vulnerable to the vicissitudes of the global economy. They are heavily dependent on external finance, including aid, and trade.

Furthermore, their foreign-exchange earnings and Government revenue tend to rely on a small number of commodities. The impact of the crisis is further influenced by the capacity of Governments to counteract its consequences, which depends on whether they have counter-cyclical macroeconomic policy mechanisms in place; the strength of their social protection systems, regulatory frameworks, and governance structures; and their political stability. These factors also influence how different groups within their societies are affected by the crisis.

**12. External financing for developing countries has dried up.** Private capital flows to developing countries have dropped sharply, accompanied by a surge in risk premiums for external financing. Net private capital inflows to developing economies declined by more than 50 per cent during 2008, dropping from the peak of more than \$1 trillion registered in 2007 to less than \$500 billion in 2008. Another significant decline, of around 50 per cent, is expected during 2009.<sup>3</sup> While declines in net private capital inflows are expected for all emerging market economies and developing countries, the most substantial fall from previous levels is likely to occur in emerging Europe.

**13. External financing costs for emerging economies and developing countries have surged.** The risk premium on lending to these countries soared on average from 250 to about 800 basis points within the space of a few weeks in the third quarter of 2008. Unlike in recent years, when this spread varied significantly across regions and countries, which may be taken as an indication that investors were discriminating among country-specific risks, the recent surge has been uniform across countries. This implies the existence of a contagion effect across countries, possibly coupled with a generalized aversion to investment in global financial markets. Even though spreads later narrowed to 500 basis points in April 2009, they were still very high relative to pre-crisis market conditions.<sup>4</sup>

**14. The shortage of affordable financing could have major repercussions for infrastructure spending, which is critical for longer-term growth.** Investments in public and private infrastructure projects in sub-Saharan Africa and Latin America declined substantially after various crises and fiscal adjustments in the 1980s and 1990s, while infrastructure investment also dropped substantially after the financial crisis of the late 1990s in East Asia and, by 2007, it had not recovered to pre-crisis levels.<sup>5</sup> Maintaining, constructing and rehabilitating much-needed public infrastructure is critical for sustained development and growth.

**15. The increased cost of external borrowing will also affect debt sustainability in many developing countries.** Some \$3 trillion of external sovereign debt, together with well over \$1 trillion of external private-sector debt, will mature in 2009. These debts will need to be rolled over at much higher costs than those that prevailed on the original financing. Debt sustainability for many developing countries will be affected further by falling growth rates and export earnings. Most developing country foreign debt is denominated in major currencies,

<sup>3</sup> "World economic situation and prospects as of mid-2009" (see footnote 1).

<sup>4</sup> Ibid.

<sup>5</sup> See *World Economic and Social Survey 2006: Diverging Growth and Development* (United Nations publication, Sales No. E.06.II.C.1); and World Bank, "Swimming against the tide: how developing countries are coping with the global crisis". Background paper prepared for the meeting of the G-20 Finance Ministers and Central Bank Governors, held at Horsham, United Kingdom, on 13 and 14 March 2009.

which implies that the debt-servicing ability of many developing countries is highly sensitive to exchange-rate shifts. Deteriorating external conditions and the appreciation of the United States dollar since August 2008 have put downward pressure on the currencies of many developing countries. Numerous middle- and low-income countries have seen strong currency depreciations over the past six to nine months, sometimes as strong as from 20 to 50 per cent. These depreciations have made external debt service much more expensive in local currency terms, which is already affecting the budget positions of Governments and businesses. These factors are putting debt sustainability under severe stress in many developing countries.

**16. Debt sustainability in many low-income countries is at particular risk, even in those that have received substantial debt relief under the Heavily Indebted Poor Countries initiative and the multilateral debt-relief initiative.** At the end of 2008, only eight heavily indebted poor countries had low risk of debt distress, according to the joint debt-sustainability framework and classification of the World Bank and the International Monetary Fund (IMF), while 31 countries suffered moderate to high risk, and 10 countries were already in debt distress.<sup>6</sup> Recent data also show, for instance, that about one third of low- and middle-income countries in sub-Saharan Africa have external debt-to-GNP ratios of more than 50 per cent and debt-service-to-GNP ratios of more than 2 per cent, which would classify these countries as vulnerable to external shocks and at risk of debt distress.<sup>7</sup>

**17. Collapsing world trade is also likely to have a substantial impact on developing countries, many of which depend on trade for a substantial portion of their national income.** Trade flows worldwide sharply declined from the end of 2008 and have continued to decline in the first quarter of 2009 at an annual rate of more than 40 per cent in the three months up to February 2009 (figure I). The World Trade Organization projects that the volume of world merchandise trade could plunge by 9 per cent for 2009 as a whole, while, according to the United Nations *World Economic Situation and Prospects*, an even steeper fall, of 11 per cent, is expected, the largest decline since the Great Depression of the 1930s.<sup>8</sup> The impact of falling global demand is compounded by a decline in the supply of trade finance. Data on trends in export and import credits are not readily available, but many countries have reported problems in accessing various trade finance instruments. This has led to a compression of trade activity that has been reflected in the idling of container ships and a precipitous drop in shipping rates, as measured by the Baltic Dry Index.

**18. Individual developing countries will be hurt to varying degrees by the decline in demand for their exports and by the squeeze of trade credits, but the implications are serious across all countries.** The sharpest declines in trade have been observed among Asian economies, in some cases at annualized rates of 50 per cent or more.<sup>9</sup> Both China and India have registered significant year-over-year declines in their exports for the first time in decades. Moreover, imports to these

<sup>6</sup> See *Delivering on the Global Partnership for Achieving the Millennium Development Goals* (United Nations publication, Sales No. E.08.I.17). Also available from [www.un.org/esa/policy/mdggap/mdg8report\\_engw.pdf](http://www.un.org/esa/policy/mdggap/mdg8report_engw.pdf).

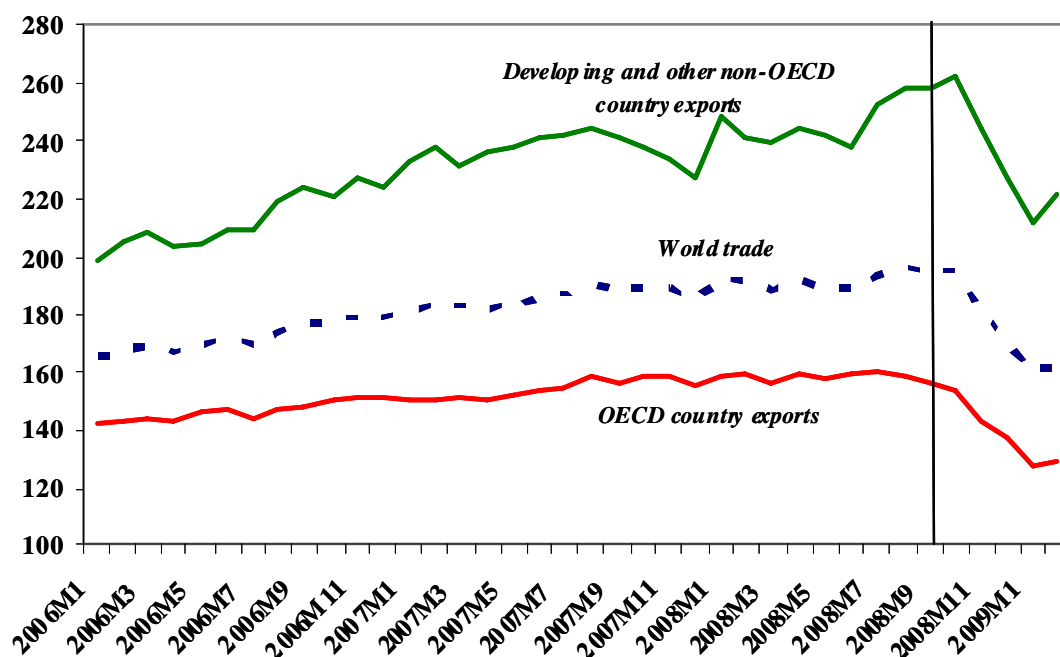
<sup>7</sup> Ibid.

<sup>8</sup> See "World economic situation and prospects as of mid-2009" (see footnote 1).

<sup>9</sup> Ibid.

countries are falling, which, together with the drop in demand in industrialized countries, is affecting commodity exports from low-income countries. In addition, many African and other poor countries are being very hard hit as their cash economies are heavily dependent on a small number of exports. Some countries have been successful in promoting niche export industries, including textiles, cut flowers, fruit and vegetables. These sectors have become important sources of foreign exchange and government revenue in many low-income countries and are now at risk because of the global downturn. Similarly, tourism is one of the main export sectors for many developing countries, especially small island developing States. International tourist arrivals have declined drastically since the onset of the economic crisis. This trend has continued with recent public health concerns regarding the possibility of a global flu pandemic.

Figure I  
**Collapsing volume of world trade, January 2006-February 2009**  
 (1998 = 100)



Source: Department of Economic and Social Affairs, based on data from the Central Planning Bureau of the Netherlands.

**19. Sharp declines in commodity prices are compounding the adverse impact for many developing countries, especially economies heavily dependent on primary exports.** From 2002 to mid-2008, many countries gained from the upward, albeit volatile, trend in the prices of oil and non-oil commodities. The intensification of the global financial crisis since mid-2008 has led to a sharp reversal in this trend. Oil prices have plummeted by more than 70 per cent from their peak levels of mid-2008. Similarly, the prices of metals have fallen by 50 per cent, while the prices of some other commodities have also declined significantly. No significant rebound is expected in the outlook. It is likely that export earnings and government revenue will continue to be depressed in many developing countries. Food- and energy-

importing countries may see their terms of trade improve, although in most cases these gains may be more than offset by the collapse in export demand, the increased cost of borrowing and/or falling remittance flows. Among net exporters of commodities, low-income countries are being hit hardest by plunging world market prices because primary exports comprise, on average, 70 per cent of their total exports. In addition, a high share of government revenue comes from taxes on these exports.

**20. Remittance flows to developing countries have also moderated significantly.** Remittances totalled more than \$300 billion in 2008, almost three times the amount of annual official development assistance (ODA) to developing countries. As a result, remittance flows have become an important source of income support and investment finance in many developing countries, but they are not a good substitute for an adequate system of social protection. In earlier crises, remittances tended to be counter-cyclical, rising to compensate for economic downturns in home countries. The concurrent economic slowdowns in both industrialized and developing countries appear to be ending this counter-cyclical effect. Weakened home-country currencies may, however, increase the purchasing power of any remittances that are sent.

**21. Remittance flows are also at risk because of rising immigration controls, forced expulsions and further reductions in job security for migrant workers.** With rising unemployment, many host countries have tightened immigration controls and introduced tougher requirements for migrant workers. In addition, migrant workers tend to lose their jobs more quickly than other workers as a consequence of national policies or public pressures. As a result, migrant workers' home countries may be deprived, through reduced remittances, of the resources needed to cushion the impact of the crisis. Remittance flows to middle-income countries may see the largest absolute declines, as they currently account for the largest individual country flows. In relative terms, however, remittance flows are even more important for a number of small countries, both middle- and low-income countries. In some of these cases remittances account for more than 20 per cent of GDP. For sub-Saharan Africa, the total income from remittances was \$20 billion in 2008, more than the region received in either foreign direct investment or what the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) classifies as "country programmable aid"; that is, ODA net of debt relief, scholarships and other forms of assistance that do not provide direct cash-flow support to government budgets.<sup>10</sup> Remittance flows to Latin America and the Caribbean started to decrease from the third quarter of 2008 with the deterioration of the job market in the United States, the source of 80 per cent of remittances to that region. Eastern Europe and Central Asia also registered a significant slowdown in remittance flows concurrent with the depreciation of the Russian rouble in 2008. Remittance flows to South Asia are expected to experience a sharp slowdown in 2009 as a result of an expected deceleration in economic activity in the Middle East, where many migrants from South Asia have found employment.

**22. Aid flows may come under pressure in view of declining gross national income (GNI) in the major donor countries.** The global economic slowdown of the early 1990s produced large fiscal deficits in donor countries that led to deep cuts

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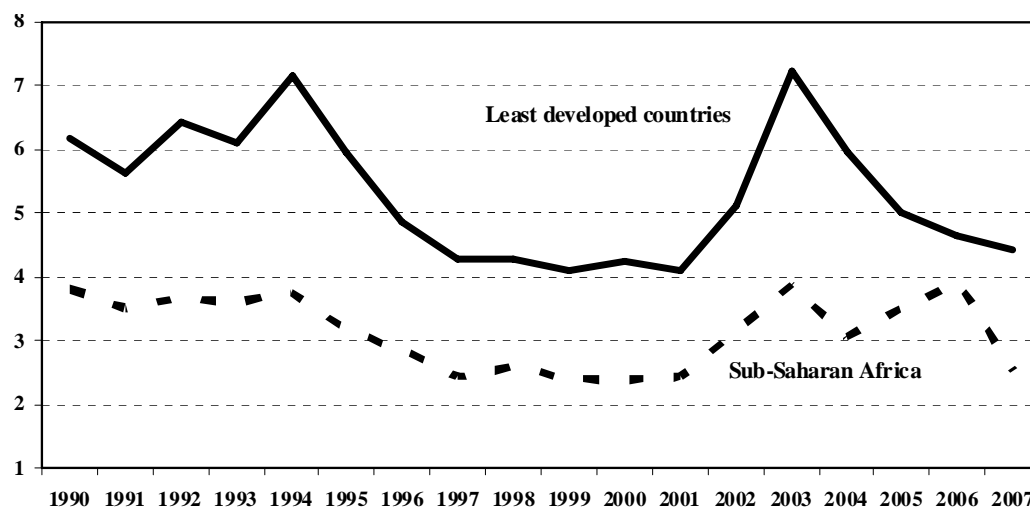
<sup>10</sup> World Bank, Migration and Development Brief 9 (23 March 2009).



in ODA, which fell from 0.3 per cent of their GNI in 1992 to 0.22 per cent in 1997. Prior to the crisis, ODA flows to developing countries were falling measurably during 2006-2007. In 2008, aid flows from DAC donors increased again, however, reaching almost \$120 billion, equivalent to 0.3 per cent of donor countries' combined GNI. The crisis is already putting downward pressure on aid flows. Many donors target annual aid flows as a share of GNI, such that the absolute value of aid may fall with national income even if its share of GNI stays fixed. Although donor countries have repeatedly reaffirmed their ODA commitments, timely delivery on those targets may still be disrupted if the present crisis is protracted.

**23. An additional immediate concern is that official aid flows could become even less predictable and more volatile.** Before the crisis, low-income countries, especially the least developed countries, saw large fluctuations in annual aid flows equivalent to up to 2 to 3 per cent of GDP (figure II). For many low-income countries there are few external financing alternatives to development assistance when faced with crisis-related declines in exports, fiscal revenues, remittances and private capital flows. Uncertainty about the expected level of aid inflows further complicates the formulation of macroeconomic policies in response to the crisis.

Figure II  
**Volatile aid flows**  
(Percentage of GDP)



Source: Organization for Economic Cooperation and Development/Development Assistance Committee and Department of Economic and Social Affairs databases.

**24. As a consequence of the worsening international environment, most developing countries will experience severe balance-of-payment problems.** The World Bank estimates that 98 of 104 developing countries are expected to fall short of covering their external financing needs, with an estimated external financing gap that could rise to \$268 billion in 2009 alone, but may well be as high as \$700 billion under an envisaged scenario of further declines in private capital flows and increased capital repatriation to industrialized countries.<sup>11</sup> For low-income countries

<sup>11</sup> World Bank, "Swimming against the tide: how developing countries are coping with the global crisis" (see footnote 5).

alone, IMF estimates that the balance-of-payments shock could amount to about \$140 billion in 2009.<sup>12</sup> While some developing countries have accumulated vast amounts of international reserves, these are unequally distributed — that is, most are held by a handful of countries. Most developing countries have insufficient reserves to cope with the magnitude of the external shock caused by this crisis. Reserves in some 30 low-income countries are already too small to cover a critical minimum of three months of imports. Even emerging market economies with strong reserve positions have seen steep declines, of 20 to 40 per cent, in their foreign reserves as they have attempted to compensate for declining current account positions. An increasing number of countries have had to turn to IMF for large sums of emergency funding to limit further destabilization of their economies.

## **B. Implications for growth, employment and achievement of the Millennium Development Goals**

**25. Per capita income growth in developing countries is likely to stagnate in 2009 as a consequence of these rapidly deteriorating external conditions.** According to the latest United Nations forecast, growth of income per capita in developing countries is expected to decelerate significantly. Growth of GDP per capita is expected to drop to zero on average for developing countries, down from 4 per cent in 2008 and almost 6 per cent on average per year during 2004-2007. The expected setbacks are across the board, though strongest in sub-Saharan Africa and Latin America and the Caribbean. Those regions are also expected to suffer the severest actual declines in per capita income during 2009. At least 60 developing countries are likely to suffer negative per capita income growth in 2009. The least developed countries, including the small island developing States among them, could also be severely affected, with growth decelerating by five percentage points from the robust growth they have witnessed in recent years.

**26. A prolonged labour market recession could result from stagnate growth.** The International Labour Organization estimates that, because of the crisis, at least 50 million more people worldwide could become unemployed and hundreds of millions may join the ranks of the working poor.<sup>13</sup> The measured unemployment rate may not reflect the actual severity of the crisis as people give up looking for work or exit the formal workforce. In most developing countries, in the absence of adequate social protection, people who lose their jobs are often forced to resort to unskilled, low-income informal activities that are not reflected in unemployment figures.

**27. Higher unemployment and underemployment rates may nevertheless persist for some time.** Lessons from past financial crises indicate that it typically takes four to five years for unemployment rates to return to pre-crisis levels after economic recovery has set in. This is because massive rises in long-term unemployment and greater labour market “informalization” — exacerbated by returning migrants and large-scale reverse migration from urban to rural areas — are

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<sup>12</sup> International Monetary Fund, *The Implications of the Global Financial Crisis for Low-Income Countries* (Washington, D.C., March 2009).

<sup>13</sup> See International Labour Organization, “The financial and economic crisis: a decent work response” (document GB.304/ESP/2). Paper submitted to the ILO Governing Body Committee on Employment and Social Policy (2009).

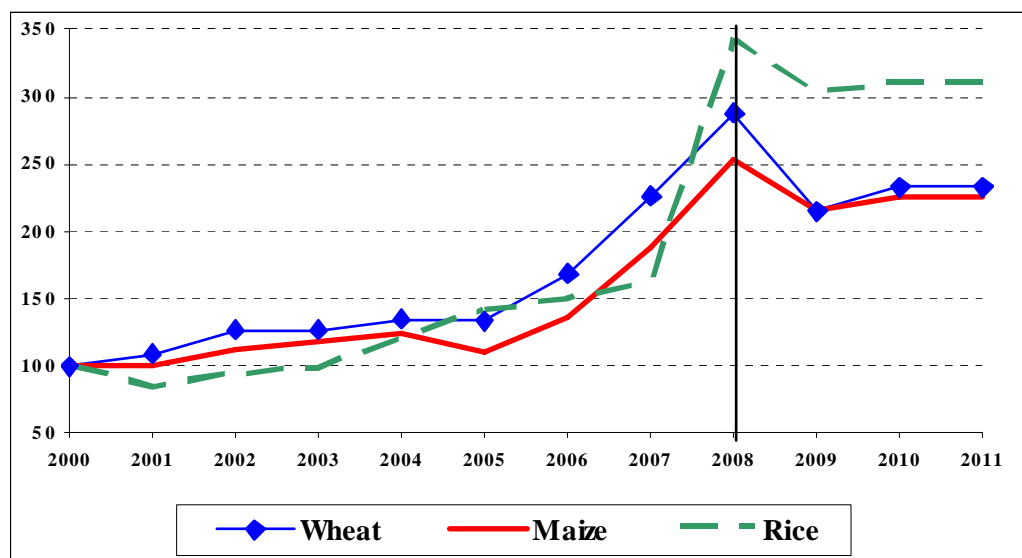
very difficult to reverse.<sup>14</sup> If these trends take root, the negative effects of the crisis will be long-lasting, leading to significant social hardship and depriving the economy of valuable resources. Most countries will need to achieve strong growth acceleration during the period 2011-2015 to offset the job destruction and displacement of workers caused by the crisis.

**28. The global economic and financial crisis comes on top of the 2008 food crisis, which is not over.** According to the Food and Agriculture Organization of the United Nations (FAO), higher food prices pushed an estimated 115 million people into hunger in 2007 and 2008, raising the global total to close to 1 billion people. Moreover, already before the current crisis, 2 billion people suffered from micronutrient deficiencies. Even though food prices have declined significantly from their peaks early in 2008, they remain above recent historic trends. Moreover, the recent exchange-rate depreciations have increased the domestic cost of processed imported food in many developing countries, most of which are net food importers. In January 2009, the FAO food price index still was 27 per cent above the 2005 level and 64 per cent above the 2000 level. Structural factors putting upward pressure on prices, such as low food stocks, low agricultural productivity growth, climate change and demand for biofuels, are still exercising influence. Many experts predict that food prices will be significantly higher over the next 10 years than the low levels that persisted during the late 1990s (figure III).

Figure III

**Food prices: declining, but still high**

(2000 = 100)



Source: United Nations Conference on Trade and Development and Department of Economic and Social Affairs.

**29. The reduction in employment and income opportunities caused by the crisis will no doubt generate further setbacks in poverty reduction and in the fight against hunger.** The full impact of the crisis on global poverty is difficult to

<sup>14</sup> Ibid.

project. By most estimates, the world has not yet reached the bottom of the crisis, countries are affected in varying degrees that depend on their specific circumstances and their capacity to respond with social protection measures varies significantly. The Department of Economic and Social Affairs projects that the drop in per capita income growth in 2009 could slow progress on poverty reduction significantly. Between 73 and 103 million more people could remain poor or fall into poverty in comparison with expected developments under pre-crisis growth trends. Most of this setback would be felt in East and South Asia, where from 56 to 80 million people are likely to be affected, about half of them in India. The crisis could keep 12 to 16 million more people in poverty in Africa and another 4 million people in Latin America and the Caribbean.

**30. The distributional consequences of the crisis could further magnify its impact on poverty.** Workers at the lower end of the job ladder, including young and female workers, are more likely to lose their jobs or to suffer income losses during an economic slowdown. Workers are already visibly shifting out of dynamic export-oriented sectors and either becoming unemployed or being displaced to lower productivity activities, including moving back from urban to rural areas. In China alone, 20 million workers were displaced in these ways during 2008. These trends are likely to jeopardize future poverty reduction efforts. Even when economic growth resumes, it may take some further time before workers can shift back to higher productivity activities that yield greater remuneration.

**31. A substantial slowdown in progress towards the achievement of the Millennium Development Goals is likely to result from the economic and financial crisis.** Even prior to the crisis, and despite significant advances, progress in many countries was not on track to meet most Millennium Development Goals.<sup>15</sup> As the crisis continues to unfold, increasing income poverty and lower government revenue will also lead to lower public and private spending on social services, affecting all of the Millennium Development Goals. The magnitude of the potential setback is difficult to estimate at this point and will vary from country to country according to existing fiscal policy and the institutional capacity to respond to the crisis. The experience of past crises in developing countries indicates that such effects could, for instance, sharply slow the ongoing reduction in infant mortality. According to World Bank estimates, a projected fall of GDP growth to half the pre-crisis level could result in 200,000 to 400,000 more infant deaths per year than would have been the case without the crisis.<sup>16</sup> Research also indicates that, in many contexts, economic crises tend to increase the probability of early death of girls by more than that for boys.<sup>17</sup> Older persons also tend to be hurt disproportionately when social spending falls and health delivery deteriorates.

**32. The crisis could also substantially increase the costs of achieving the Millennium Development Goals by 2015.** The precise impact of the crisis on the achievement of the Millennium Development Goals will vary from country to

<sup>15</sup> See *The Millennium Development Goals Report, 2008* (United Nations publication, Sales No. E.08.I.18).

<sup>16</sup> The projected slowdown is consistent with the United Nations baseline average GDP growth rate forecast for 2009 and 2010, assuming recovery in 2010. The estimated impact on infant mortality is based on the World Bank background paper "Swimming against the tide" (see footnote 5).

<sup>17</sup> S. Baird, J. Friedman and N. Schady, "Aggregate income shocks and infant mortality in the developing world", World Bank Policy Research Working Paper No. 4346 (2007).

country, and so will the cost of the additional efforts needed to put countries on track, or back on track, towards achievement of the targets. A study conducted by the Department of Economic and Social Affairs using a comprehensive modelling framework for a number of Latin American countries finds that a projected recession in 2009 and slow recovery towards pre-crisis growth levels by 2015 would put some of the region's low-income countries substantially further off track towards the goals for primary school completion, child and maternal mortality and access to drinking water and sanitation.<sup>18</sup>

### C. Gender aspects of the crisis

**33. Previous economic and financial crises have shown that economic downturns put a disproportionate burden on women.** Women, especially in developing countries, tend to have a higher probability than men of finding themselves in vulnerable employment situations or being unemployed. The crisis has already hit major exporting industries in developing countries that are dependent on North American and European markets, including the labour-intensive clothing, footwear, processed foods, and electronic products sectors. Since women often make up the majority of the workforce in these sectors, initial indications imply that their labour market position has worsened considerably in countries where these sectors account for a significant share of production. Women are more likely to work in casual and temporary employment and earn lower wages than their male counterparts. With less job security women are more vulnerable during economic downturns.

**34. Women also tend to face greater income insecurity and increased burdens of family care.** Existing evidence shows that the various economic and financial crises in Latin America, South Asia and Eastern Europe of the 1990s increased women's domestic burdens. In many cases, women were forced to absorb the impact of cuts in public spending on health care and education that were made in response to those crises.<sup>19</sup> Cuts in social spending also tend to disproportionately affect women's and girls' access to education and health services. Girls may be withdrawn from schools to help with household work during times of economic crisis, reinforcing gender gaps in education. Unless efforts are made to avoid cuts in social spending, the present crisis will generate similar effects.

### D. Implications for the environment

**35. Reduced investments in environmental protection, energy efficiency and renewable energy, water and land management and afforestation could slow efforts under Millennium Development Goal 7 and other frameworks to make development more sustainable and to address climate change through mitigation and adaptation.** The global recession is likely to slow the growth of

<sup>18</sup> See "World economic situation and prospects as of mid-2009" (see footnote 1), box 1. The analysis uses an economy-wide framework (MAMS) for assessing the determinants and costs of achieving the Millennium Development Goals, and the macroeconomic trade-offs that may be associated with scaling-up public spending for the Goals.

<sup>19</sup> See *1999 World Survey on the Role of Women in Development: Globalization, Gender and Work* (United Nations publication, Sales No. E.99.IV.8).

greenhouse gas emissions. At the same time, investment in low-carbon infrastructure and technologies may fall together with an overall decline in investment worldwide. Lower oil prices have also reduced the incentive to substitute cleaner technologies for fossil fuels. The net effect of these countervailing developments is expected to be negative. Slowing the growth of greenhouse gas emissions is likely to have negligible short-term effects on atmospheric concentrations, and hence on climate change, owing to the long atmospheric life of key greenhouse gases. In contrast, reduced investment in renewable energy and other low-carbon technologies is likely to slow the cost reductions and learning processes associated with their more widespread adoption.

**36. The crisis may have further environmental impacts through changes in land use and accelerated deforestation.** The crisis-induced decline in global demand for wood and wood products will affect the 1.6 billion people, including about 60 million indigenous people, who depend directly or indirectly on forest resources for their livelihoods. This could reduce some pressure on forests, but deteriorating rural livelihoods may also increase local demands on forest resources. Rural populations who lose formal employment or demand for their cash crops will seek survival through foraging in forests for food and energy. This was an observed consequence of the financial crisis of 1997 in some Asian countries. Many forest areas were cleared, burned and converted to other uses by rural poor people in a struggle for survival.

## **E. Social and political implications**

**37. A prolonged recession and insufficient attention to social needs could cause problems of social unrest, rising criminality and weakening governance.** A failure to adequately address expected setbacks in our progress towards achieving the Millennium Development Goals, as well as other internationally agreed development goals, may trigger greater inequalities and both social and political unrest. Many developing countries have already experienced various forms of instability as a result of the crisis. Increased unemployment may also trigger greater criminality. Some countries in Asia, for instance, experienced increases in criminality, particularly juvenile delinquency, during the 1990s crisis. Falling revenue and social support may also affect the capacity of Governments to manage the crisis effectively. Governance failure could, in some cases, follow the market failure that triggered the crisis. Adequate systems of checks and balances, transparency in public action and constructive dialogue with civil society will be critical in ensuring good governance in a period of great volatility and constrained resources.

**38. Particular efforts will be needed to buttress the international partnership for development called for under Millennium Development Goal 8.** Global solidarity requires all of us to address the needs of the world's most vulnerable. Our challenges are intertwined. An effective response to the effects of the economic and financial crisis on development will help to support concerted action on climate change, social justice and human rights.

## IV. Global responses to the crisis

### 39. **The global economic crisis presents a case for renewed multilateralism.**

The current crisis is global and requires concerted, global solutions. Inadequate international coordination could not only endanger economic recovery and achievement of the Millennium Development Goals, but may also have wider security repercussions. History shows that economic unilateralism has often also led to political unilateralism and increased tensions among countries. It is heartening that international institutions and Member States have mobilized to respond to the crisis and concerted action is under way. But more can and must be done. This section reviews initiatives and policy efforts that have been undertaken in response to the crisis by the United Nations, international bodies and Member States.

### 40. **Full delivery on these initiatives and additional action is urgently needed to ensure that the economic and financial crisis does not turn into a humanitarian disaster that would threaten achievement of the Millennium Development Goals.**

An acute development emergency could result from insufficient action, and such an emergency would have long-term implications for economic growth, poverty reduction, food security, and climate change. For instance, if countries are forced to cut back on health, education and social expenditure owing to inadequate support from the international community, today's children will bear the burden of these cutbacks for the rest of their lives. The crisis presents an opportunity not just to prevent suffering and deprivation but also to lay the foundation for truly sustainable global development that prioritizes job creation, poverty reduction, greater equity and improved economic governance. Better monitoring mechanisms should also be implemented to ensure that we have the capacity to prevent, detect and address future global development emergencies in a more rapid, coordinated and effective fashion.

## A. United Nations system-wide responses

### 41. **In response to the global economic crisis, the United Nations system has pooled its multiple assets to assist countries and vulnerable populations in addressing the impact of the downturn.**

In addition to the ongoing initiatives of the United Nations system, the United Nations System Chief Executives Board for Coordination (CEB) — which brings together the heads of all United Nations agencies, funds and programmes — has launched nine major United Nations-system initiatives to respond to the crisis.<sup>20</sup> These initiatives are united around a common commitment to assist countries and the global community to confront the crisis, accelerate recovery and build a fair and inclusive globalization that allows for sustainable economic, social and environmental development for all.

### 42. **The Chief Executives Board for Coordination agreed to face the future in a spirit of conviction and committed itself to transformation change by taking action in the following areas:**

<sup>20</sup> United Nations System Chief Executives Board for Coordination, communiqué of 5 April 2009; and the related CEB issue paper entitled "The global financial crisis and its impact on the work of the United Nations system" (CEB/2009/HLC-P-XVII/CRP.1), April 2009.

- **Additional financing for the most vulnerable** through advocacy for and the design of a joint World Bank-United Nations system mechanism for the common articulation and implementation of additional financing, including through the World Bank's Vulnerability Fund.
- **Greater food security** through strengthened programmes to feed the hungry and expanded support to farmers in developing countries. This initiative could work through and complement the Secretary-General's High-level Task Force on the Global Food Security Crisis.
- **Increased trade**, by fighting protectionism, including through the conclusion of the Doha Round, as well as strengthened aid for trade initiatives and finance for trade.
- **A green economy initiative** that will promote investment in long-term environmental sustainability and put the world on a climate-friendly path.
- **A global jobs pact** that boosts employment, production, investment and aggregate demand, and promotes decent work for all.
- **A social protection floor** that ensures basic social services, shelter, empowerment and protection for the poor and vulnerable.
- **Emergency action on humanitarian, security and social stability** to protect lives and livelihoods, address hunger, meet humanitarian needs, protect displaced people and shore up both security and social stability.
- **Technology and innovation**, with a view to developing technological infrastructure to facilitate the promotion of and access to innovation.
- **Monitoring and analysis** by strengthening macroeconomic and financial surveillance, and implementing an effective economic early warning system.

43. **Under the initiative on monitoring and analysis, CEB also agreed to establish urgently a United Nations system-wide vulnerability monitoring and alert mechanism to respond to an identified gap in information pertaining to the effects of the current crisis on the world's most vulnerable populations.** Over the past decade, the international community has put in place a plethora of global early warning mechanisms, ranging from systems tracking disease outbreaks and natural disasters, to mechanisms that capture initial signs of drought, famine and climate change. These systems have been very successful in tracking specific vulnerabilities and in alerting policymakers to emerging issues of global concern. However, it has become clear in the context of the economic and financial crisis that there are few mechanisms that are able to report in an integrated fashion on the multiple impacts that such shocks have on the lives of the poorest and most vulnerable populations. While there is no shortage of projections and anecdotal accounts, there is very little real-time evidence that illustrates how the poorest households are affected by the downstream repercussions of global shocks.

44. **The United Nations Global Vulnerability Alert will help to ensure that, in times of global crisis, the fate of the poorest and most vulnerable populations is not marginalized in the international community's response.** By closely monitoring emerging and dramatically worsening vulnerabilities on the ground, the Alert will fill the information gap that currently exists between the point when a



global crisis hits vulnerable populations and when information reaches decision makers through official statistical channels.

## B. International responses

### **45. Member States, multilateral institutions and regional bodies have agreed on a further range of concerted responses to the financial and economic crisis.**

These initiatives reflect discussions at, inter alia, the Financing for Development Conference held at Doha in 2008; the meetings in April 2009 of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund and the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee); the meeting in April 2009 of the Group of 24; the Commission of Experts of the President of the General Assembly on Reforms of the International Monetary and Financial System; the interactive thematic dialogue of the General Assembly on the world financial and economic crisis; and the first two Summits of the leaders of the Group of 20.

### **46. Leaders of the Group of 20 (G-20) agreed at the London Summit on 2 April 2009 to do whatever is necessary to provide a global solution for the global economic and financial crisis.**

G-20 leaders pledged to restore confidence, growth and jobs; repair the financial system to restore lending; strengthen financial regulation to rebuild trust; fund and reform the international financial institutions to overcome this crisis and prevent future ones; promote global trade and investment and reject protectionism, to underpin prosperity; and ensure an inclusive, green and sustainable recovery. G-20 leaders also announced a \$1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Under the programme, they agreed to treble resources available to IMF to \$750 billion (including a new allocation of special drawing rights (SDRs) of \$250 billion), to support at least \$100 billion in additional lending by multilateral development banks, to ensure \$250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales and surplus IMF income to provide \$6 billion in additional concessional and flexible finance for low-income countries over the next two to three years.

### **47. This \$1.1 trillion financing programme would provide a total of \$50 billion to support social protection, boost trade and safeguard development in low-income countries.**

To deliver on this target, and in recognition of the disproportionate impact that the current crisis is having on the vulnerable in developing countries, G-20 leaders also reaffirmed their commitments to meet the Millennium Development Goals and their respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments for 2010, especially to sub-Saharan Africa. The challenge ahead is to ensure that these resources are delivered to developing countries in a timely fashion. Substantial work remains to identify resources and finance those pledges.

### **48. A comprehensive suite of actions has also been undertaken by Member States, multilateral institutions and regional bodies to address specific aspects of the crisis.** Some of these efforts include:

- **Implementation of unprecedented, concurrent fiscal stimulus packages** that so far have amounted to about \$2.7 trillion (about 4 per cent of GWP).

Further efforts will be needed to increase the size and coordination of these stimulus packages, and also to ensure that developing countries can share in the effects of this determined spending.

- **Specific programmes of direct and indirect support to financial institutions** to ensure adequate recapitalization of banks, to create confidence in the solvency of the financial sector, and to restore domestic lending and international capital flows.
- **Actions to create a stronger, broader and more globally consistent macro-prudential supervisory, regulatory and oversight framework in conjunction with early warning surveillance systems that are better able to identify and respond to risks in the financial sector.** These measures include initiatives to extend regulation and oversight to all systemically important financial institutions, instruments and markets, including hedge funds and credit-rating agencies, and to implement tougher principles on pay and compensation schemes to avoid inappropriate risk taking.
- **Strengthened international tax cooperation, including action against non-cooperative jurisdictions and other tax havens** with a view to reducing pervasive tax evasion and boosting the fiscal capacities of Governments worldwide. Important information-sharing steps have already been taken by the United Nations Committee of Experts on International Cooperation in Tax Matters and, for a more limited set of countries, through the Organization for Economic Cooperation and Development.
- **More flexible terms and quicker access to balance-of-payments financing from IMF** through the creation of its Flexible Credit Line and high access precautionary arrangements, as well as its decision to double access limits on concessional lending to low-income countries.
- **Greater, more effective and more predictable financing for the most vulnerable** in response to donors' reaffirmation of various outstanding aid commitments and their efforts to deliver on the 2008 Accra Agenda for Action.
- **Ongoing reforms to strengthen the longer-term relevance, credibility, accountability, effectiveness and legitimacy of the international financial institutions.** This agenda includes the implementation of substantial reforms of quota, voice and representation in the governance structures of IMF and World Bank with a view to improving the coherence of the international monetary, financial and trading systems and strengthening their consistency with the internationally agreed development goals, including the Millennium Development Goals.
- **Close monitoring of Member States' debt sustainability to assess the impact of any reconfiguration of our international financial and economic governance structures.** Possible considerations may include increased flexibility in the debt-sustainability framework and a reconsideration of previous attempts to establish an international mechanism for sovereign debt restructuring and relief in cases of insolvency.
- **Commitments to avoid any increase in protectionism and to move expeditiously to conclude a truly development-focused conclusion to the Doha Round of trade negotiations.** Both Asia-Pacific Economic Cooperation

and G-20 leaders signed pledges in November 2008 to avoid protectionist measures. In the event, World Bank data indicate that 17 of the G-20 countries have, among them, implemented 47 measures that restrict trade at the expense of other countries. Instead, exports from the least developed countries, including cotton, should receive immediate access to all global markets. Support for aid for trade to developing countries should also be increased so that these countries can overcome their structural constraints and enhance their competitiveness as part of their crisis recovery efforts.

**49. Unfortunately, no concerted measures have been taken to protect migrant workers and they have found themselves subjected to new restrictions and, in some cases, expulsions from their host countries.** The imposition of further restrictions on migrant workers must be stopped and existing controls should be rolled back. The world community should ensure that the crisis does not lead to a backlash against migrants in receiving countries, and should avoid harming recovery and development in home countries by depressing migrants' employment and remittances.

### **C. The need for systemic reform**

**50. Our response to the crisis must address an immediate and global development emergency as well as the systemic causes of the crisis itself.** As we build on initiatives already under way and complement them with additional efforts, we should strive:

- To reflect the realities of the existing global imbalances.
- To reduce the asymmetries between developed and developing countries in adopting necessary counter-cyclical policies and providing additional social protection.
- To tackle the systemic flaws in the global financial system.
- To ensure that the stimulus for economic recovery avoids reproducing the past, unsustainable growth pattern, and instead prioritizes job creation and poverty reduction while laying the foundation for truly sustainable global development.

Unless this is done, an even more acute development emergency is likely to arise, featuring further setbacks in the world's efforts to achieve the Millennium Development Goals. Rising unemployment and poverty would confront developing countries with increased social needs, but decreases in government revenue would provide them with fewer resources to meet those needs. If developing countries are forced to cut back on social expenditure it will have long-lasting effects on the education and health of their populations, with lifelong effects on children and young people. If developing countries are forced to cut back or delay essential investments in infrastructure, agricultural development and green technologies, there will be long-term repercussions for poverty reduction, food security and climate change.

**51. Globally concerted action that balances the need for immediate impact with the achievement of longer-term development objectives is urgently required in three key areas:**

- Ensuring adequately coordinated macroeconomic stimulus focused on sustainable development.
- Addressing systemic issues and reforming global economic governance mechanisms.
- Improving monitoring mechanisms to ensure greater accountability in global public policy action and enhanced capacity to detect and respond to global development emergencies.

Our response to the crisis should kick-start growth in the short term and ensure greater financial stability, but it should also create the conditions for sustainable development, more decent employment, more effective investment, better technology policies and financial inclusion at both national and international levels.

**52. The United Nations system can provide leadership, in close collaboration with the Bretton Woods institutions, in all of these areas and ensure policy coherence among these initiatives.**<sup>21</sup> The United Nations offers a unique platform where key issues such as development, climate change, human rights, peace and security — and the links between them — can be considered together. Some Member States have proposed that such coordination could take place through a new Global Economic Council that is part of the United Nations system or through a reformed Economic and Social Council.

## V. Summary of main recommendations

**53. The main recommendations may be summarized as follows:**

(a) **In the face of the world economic and financial crisis, the multilateral system must deploy all its resources and capacities for rapid, coordinated and effective responses. Unprecedented global responses have already been undertaken, but more global action is urgently needed.**

(b) **The international community should consider how to coordinate better additional fiscal stimulus measures, giving due consideration to global imbalances, destabilizing exchange-rate movements and the need to allow counter-cyclical responses by developing countries.**

(c) **Financial sector rescue operations should prioritize the restoration of affordable credit flows to productive sectors through more adequate bank capitalization and regulatory reforms.**

(d) **A much larger share of the new international liquidity for emergency financing should be made available to developing countries through flexible responses to country needs that support counter-cyclical policies.**

(e) **Development lending and official development assistance need to be scaled up substantially to ensure reliable financing for developing countries that will enable them to respond swiftly to the crisis while making long-term investments in human development and a sustainable global economy. This will**

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<sup>21</sup> The United Nations System Chief Executives Board for Coordination decided to pursue this at its meeting on 4 and 5 April 2009.

require new capital replenishments for the multilateral development banks and accelerated delivery on existing aid commitments.

(f) Protectionist trade policies must be unwound and any further increase in protectionism must be resisted. Efforts should be stepped up to ensure that the Doha Round of multilateral trade negotiations has a truly development-focused outcome. Additional aid for trade flows should be significantly increased, not least for trade financing. Full access to global markets should be provided immediately to exports from the least developed countries to help their recovery.

(g) Discrimination against migrant workers must be stopped. Such workers should be enabled to earn incomes that can fund remittances to help economic recovery in their home countries.

(h) The international community should continue to review the need for comprehensive and significant financial sector reforms, and should be especially cognizant of the impact such reforms may have on developing countries.

(i) International tax cooperation should be strengthened, and the Committee of Experts on International Cooperation in Tax Matters should be elevated to the status of an intergovernmental committee.

(j) Debt sustainability should be closely monitored. The flexibility of the debt sustainability framework should be reviewed, and the international community should consider whether it would be appropriate to establish an international mechanism for sovereign debt restructuring and relief.

(k) The process of reforming the Bretton Woods institutions should continue in order to increase their capacity to prevent and manage future crises and to enhance their legitimacy.

(l) The international financial architecture should not only ensure greater financial stability but should also create the conditions for sustainable development, more decent employment, more effective investment, better technology policies and financial inclusion at both the national and the international level.

(m) The international community should put in place the institutions and architecture appropriate for the interrelated challenges facing the world. The United Nations offers a unique platform where key issues such as development, climate change, human rights, peace and security — and the links between them — can be considered together.