Notwithstanding notable progress in recent years, the world is not on track to achieve most of the MDGs in human development. The global financial crisis adds a serious new threat. It can greatly set back progress towards the goals. Experience suggests that in the face of economic crises both household and public investments in human capital suffer.\(^2\)

**Household investments in human capital may fall.** Coming on the heels of the rise in food prices that has pushed an estimated 130-155 million people into poverty, the financial crisis will cause employment and wages to fall. The value of household assets and private remittances will also decline. As a result, poor families will find it difficult to sustain their spending on health and education. Social insurance systems are weak in most developing countries, and poor households may not be able to cope with such large economic shocks without cutting investments in human capital.

The long-run consequences of the crisis may be more severe than those observed in the short run. When poor households withdraw their children from school, there is a significant risk that they will not return once the crisis is over, or that they will not be able to recover the learning gaps resulting from lack of attendance. And the decline in nutritional and health status among children who suffer from reduced (or lower-quality) food consumption can be irreversible. Estimates suggest that the food crisis has already caused the number of people suffering permanent damage due to early malnutrition to rise by 44 million.

**Governments’ ability to finance and deliver social services may also suffer.** The decline in economic activity will reduce government revenues. Most governments in developing countries will not be able to make up the shortfall in their budgets by borrowing domestically or internationally, nor can they rely on additional ODA, which is also expected to decline. Experience suggests that the decline in government revenue will likely lead to cuts in social sector spending. For example, Indonesia and Argentina cut public health expenditures by two-thirds during the crises of the 1990s. Cuts in public spending and services can seriously harm the poor, even more so if their own ability to maintain human capital investment falters.

Moreover, there is evidence from many countries that spending favors the better-off, and that targeting is more difficult during a crisis. In a crisis, domestic political considerations may encourage governments to protect public-sector employment and wages at the expense of drugs and other critical supplies to health services. Moreover, if the economic crisis leads to currency depreciation, the cost of imported inputs (e.g. vaccines) rises in domestic terms.

**The impact of the financial crisis on HD outcomes will vary across countries and households.** Countries that are more open and integrated into the world economy, and depend more on export revenue, will be more seriously affected. Some rural poor households may be relatively protected by the same things that have kept them poor in the first place—their physical isolation and their segregation from domestic and international markets. The urban poor may be the hardest hit. During

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\(^1\) Prepared by DEC and HDN. Cleared by Justin Lin and Joy Phumaphi.

\(^2\) This note focuses on the impact of the crisis on human development MDGs. A companion note assesses the impact on poverty reduction MDG. An annex to this note provides a summary of the current status of progress towards the MDGs.
the Asian crisis of the late 1990s, the largest declines in consumption were seen among the urban poor, particularly those without access to food production. The crisis led to an increase in infant mortality of 1.8 percentage points in Indonesia. Similarly, during the economic crisis in Peru in the late 1980s, the infant mortality rate rose by 2.5 percentage points for children born during the crisis, implying about 18,000 more infant deaths.

Families may respond to lower household income by reducing spending on health and education. Conversely, the decline in real wages and the scarcity of jobs may increase the time that families devote to activities other than generating income, such as schooling and child care. For some households, especially the poor, the drop in income may force them to withdraw children from school and put them to work to support the family. There is evidence that fluctuations in income have a larger impact on school enrollment and survival among girls than among boys.

In general, the larger the fall in income, and the poorer the household, the more likely it is that negative effects on schooling will dominate. In the poorest developing countries (primarily in Africa and Asia), both health and education outcomes deteriorate during crises, due mainly to the collapse in incomes. In Cote d’Ivoire, for example, school enrollment fell by more than 10 percent in villages affected by drought in 1986/87. In middle income countries (primarily in Latin America), health outcomes deteriorate during crises, while evidence on the impact on schooling is mixed. In Mexico, for example, school enrollment fell during the crisis while it rose in Peru.

What does this mean for progress towards the MDGs? Experience from past crises suggests the potential for a slowdown in progress towards the MDGs. Countries that suffered economic contractions of 10 percent or more between 1980 and 2004 experienced more than one million excess infant deaths. Rough estimates of the impacts of the current economic downturn suggest that progress towards the MDGs will slow as global growth slows. Progress towards the MDGs is expected to pick up when growth recovers, but achievement of the MDGs will be delayed. Evidence suggests that growth collapses are costly for human development outcomes, as they deteriorate more quickly during growth decelerations than they improve during growth accelerations. The average GDP growth rate of developing countries is now projected to fall in 2009 to less than half the pre-crisis rate. The projected lower growth path will sharply slow progress in reducing infant mortality. Preliminary analysis shows that, as a result, infant deaths in developing countries may be 200,000 to 400,000 per year higher on average between 2009 and the MDG target year of 2015 than they would have been in the absence of the crisis. This corresponds to a total of 1.4 to 2.8 million excess infant deaths during the period.

Implications for policy. First, economic growth, and therefore policies supporting an early economic recovery, matter for human development outcomes. Second, selective protection of education and health spending is important. Rather than protecting sectoral expenditures per se, attention should be given to those services within sectors that most effectively enable human capital development and growth among the poor. For example, this may imply a special focus on ensuring primary health care in rural areas or poor urban neighborhoods. Well-targeted safety nets, particularly cash transfers to poor households, can go a long way to addressing the potential negative effects on human development outcomes. Third, while the economic slowdown is expected to be more severe in the short run, global public policy should not lose sight of the medium and long run. The crisis does not alter the fundamental need to support and protect household investments in education and health. Fourth, stronger international cooperation is needed to support these efforts, including through the proposed Vulnerability Fund.
**MDGs: Current Status at a Glance**

**Figure 1 – Progress towards MDGs --- all developing countries**

- Most human development MDGs—especially for child and maternal mortality but also primary completion, nutrition, and sanitation—are unlikely to be met on current trends.

- Stronger progress in reducing income poverty had put the MDG for poverty reduction within reach at the global level, but the triple jeopardy of food, fuel, and financial crises raises new risks.

- At the regional level, Sub-Saharan Africa lags on all MDGs, including the goal for poverty reduction. South Asia lags on most human development MDGs.

- Progress towards the MDGs is slowest in the group of states classified as fragile.

- At the individual country level, most countries are off-track on most MDGs.

*Note: *144 countries. The malnutrition data were calculated using the old standard.

Source: Staff calculations based on World Development Indicators.
### Millennium Development Goals

**Goals and Targets from the Millennium Declaration**

#### GOAL 1  ERADICATE EXTREME POVERTY AND HUNGER
- **Target 1.A** Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day
- **Target 1.B** Achieve full and productive employment and decent work for all, including women and young people
- **Target 1.C** Halve, between 1990 and 2015, the proportion of people who suffer from hunger

#### GOAL 2  ACHIEVE UNIVERSAL PRIMARY EDUCATION
- **Target 2.A** Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

#### GOAL 3  PROMOTE GENDER EQUALITY AND EMPOWER WOMEN
- **Target 3.A** Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015

#### GOAL 4  REDUCE CHILD MORTALITY
- **Target 4.A** Reduce by two thirds, between 1990 and 2015, the under-five mortality rate

#### GOAL 5  IMPROVE MATERNAL HEALTH
- **Target 5.A** Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
- **Target 5.B** Achieve by 2015 universal access to reproductive health

#### GOAL 6  COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES
- **Target 6.A** Have halted by 2015 and begin to reverse the spread of HIV/AIDS
- **Target 6.B** Achieve by 2010 universal access to treatment for HIV/AIDS for all those who need it
- **Target 6.C** Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

#### GOAL 7  ENSURE ENVIRONMENTAL SUSTAINABILITY
- **Target 7.A** Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources
- **Target 7.B** Reduce biodiversity loss, achieving by 2010 a significant reduction in the rate of loss
- **Target 7.C** Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation
- **Target 7.D** Have achieved a significant improvement by 2020 in the lives of at least 100 million slum dwellers

#### GOAL 8  DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT
- **Target 8.A** Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system (including a commitment to good governance, development, and poverty reduction, both nationally and internationally)
- **Target 8.B** Address the special needs of the least developed countries (including tariff- and quota-free access for exports of the least-developed countries; enhanced debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous official development assistance for countries committed to reducing poverty)
- **Target 8.C** Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)
- **Target 8.D** Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
- **Target 8.E** In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
- **Target 8.F** In cooperation with the private sector, make available the benefits of new technologies, especially information and communications