Chapter 1  Education at risk: the impact of the financial crisis

Overcoming disadvantage: a boy does homework in Freetown, Sierra Leone.

Children queue for food in Pakistan: rising prices hit the poor hardest.
The global financial crisis has provided a stark reminder of the realities of global interdependence. With the aftershock now reaching many of the world’s poorest countries, poverty levels are rising, malnutrition is worsening and education budgets are coming under pressure. Some of the world’s most vulnerable households are feeling the effects of a crisis that originated in the banking systems of the rich world. It is too early to assess exactly what the financial crisis will mean for progress towards the EFA goals. But this year’s Report starts by looking at the early warning signs. It then assesses the international response to the crisis and considers what can be done to avoid major setbacks.
Introduction

The backdrop for this edition of the *Education for All Global Monitoring Report* is the deepest economic downturn since the Great Depression. While several financial indicators have improved in recent months, fuelling optimism that the ‘green shoots’ of recovery are taking root in the developed world, many developing countries stand on the brink of a human development crisis driven by recession and rising poverty.

For the Education for All goals adopted in Dakar at the World Education Forum, 2010 will be a make or break year. The past decade has witnessed remarkable progress on many fronts. The number of children not in school has been falling, gender gaps are narrowing and more children are completing a basic education. Some of the world’s poorest countries have demonstrated that universal primary schooling and wider education goals set for 2015 are attainable. With just five years to go to the target date, the challenge is to consolidate these gains and accelerate progress in countries that are off track. The danger is that the aftershock of the financial crisis will slow, stall or even reverse the hard-won gains of the past decade.

Such an outcome would be indefensible. Children living in the urban slums and rural villages of the world’s poorest countries played no part in the reckless banking practices and regulatory failures that caused the economic crisis. Yet they stand to suffer for the gambling that took place on Wall Street and other financial centres by losing their chance for an education that could lift them out of poverty. The guiding principle for international action should be a commitment to ensure that the developing world’s children do not pay for the excesses of the rich world’s bankers.

Depriving children and youth of opportunities for learning has damaging implications for progress in other areas, including economic growth, poverty reduction, employment creation, health and democracy. If the financial crisis is allowed to create a lost generation in education, this will sound the death knell for the Millennium Development Goals, the international targets set for 2015 – and it will call into question the future of multilateral cooperation on development.

First, avoiding that prospect requires action on two levels. National governments need to strengthen their focus on fairness in public spending to protect poor and vulnerable people from the impact of the economic crisis. Second, the world’s richest countries need to support low-income countries by providing concessional financing. Without this lifeline, large-scale and mostly irreversible human development setbacks are inevitable. Education systems will sustain severe damage – and children marginalized by poverty, gender and ethnicity stand to bear the brunt.

At successive summit meetings, political leaders of the Group of Twenty (G20) and the Group of Eight (G8) have helped stave off a deeper economic crisis by increasing global liquidity, stabilizing financial systems and unlocking credit markets. Unfortunately, little has been done to protect hundreds of millions of the world’s most vulnerable people from the impact of a crisis they had no part in creating. The world’s richest countries have moved a financial mountain to bail out their banking systems, but have mobilized an aid molehill for the world’s poor.

Progress since Dakar has been driven partly by stronger policies in education, but also by accelerated economic growth and poverty reduction. Now, just five years before the 2015 Education for All target date, policy-makers are operating in a far more hostile environment. The financial crisis and steep food price rises have created ‘perfect storm’ conditions for a major setback. Slower economic growth could trap another 90 million people in poverty in 2010 – and more children face the threat of malnutrition. Meanwhile, national education budgets are coming under intense pressure. In the absence of an effective international response, low-income countries in particular will find it difficult to protect spending on education, let alone to scale up investment.
This chapter has five core messages:

- **The economic slowdown has far-reaching consequences for education financing in the poorest countries.** Slower growth and declining revenue are jeopardizing public spending plans in education. For Sub-Saharan Africa, the resources available for education could fall by US$4.6 billion a year on average in 2009 and 2010, or more than twice the current amount of aid to basic education in the region. Spending per primary school pupil could be as much as 10% lower in 2010 because of the effects of the recession. This potentially damaging outcome underlines the importance of real time budget monitoring, with a focus on adjustments to 2009 budgets and spending outcomes, and the formulation of 2010 budgets.

- **Increased international aid would help reduce budget pressures.** Governments in the world’s poorest countries urgently need an increase in development assistance to offset revenue losses, sustain high-priority social spending and undertake the countercyclical investment required to create the conditions for recovery. New evidence set out in this chapter shows that low-income countries in sub-Saharan Africa have a limited ability to shield public spending from the effects of the downturn, but a significant capacity to productively absorb increased aid. In addition, a temporary moratorium on official debt payments would reduce pressure on government budgets, potentially releasing resources for spending in areas such as education and health. Such a moratorium would be in the spirit of the fiscal stimulus packages deployed in developed countries, attenuating the impact of the global crisis on economic growth and poverty reduction efforts. The cost of the debt moratorium for forty-nine low-income countries would amount to around US$26 billion for 2009 and 2010 combined.

- **Education for All financing gaps should be closed under a human development recovery plan.** Governments, aid donors and financial institutions urgently need to assess the financing gaps for achieving the Millennium Development Goals. Making available the resources required to close these gaps should be part of the coordinated international response to the global financial crisis. A major new financial costing exercise carried out for this Report (discussed in detail in Chapter 2) puts the Education for All financing gap at around US$16 billion. That headline figure appears large in absolute terms, but has to be placed in context. It represents less than 2% of the financial rescue package put together by governments in just two countries – the United Kingdom and the United States – for four commercial banks and is equal to a small fraction of the wider financial systems bail-out.

- **International action must be taken before the 2010 Millennium Development Goal summit.** The impact of the financial crisis and new evidence on the scale of financing gaps demand an effective international response. With a Millennium Development Goal summit planned for 2010, the United Nations Secretary-General should convene a high-level meeting of donors and governments of low-income countries to reassess the external financing required to achieve the Education for All goals.

This chapter is divided into three parts. Part 1 looks at the mechanisms through which the financial crisis and the food crisis are hurting education systems. Part 2 examines ‘fiscal space’, the room for manoeuvre that governments have to protect public spending in education and other areas from the effects of the global economic downturn. Part 3 critically reviews the international response to the crisis, highlighting in particular the failure of the current G20 framework.
Double jeopardy: food prices and financial crisis

“We were hearing that there was no work and the factory would be shut down. It all happened quite fast actually. Although there was much talk about the factory shutting down, the authorities did not really tell us anything until almost the last week.”

Anwarul Islam, a Bangladeshi migrant labourer in Jordan

“Since I lost my job sometimes we eat only once or twice a day. I don’t know what to do. We are just camping in front of the factory gates, waiting for the company to pay us.”

Kry Chamnan, garment worker in Cambodia, February 2009

“My factory retrenched 150 workers including me. I’m in deep trouble thinking about how to live with my two children.”

Lalitha, a 35-year-old worker in Sri Lanka

“You think about your children when you lose your job. That’s the first thing that came into my mind – when school starts, how am I going to buy the uniform, the exercise books and all that. The food, you know how expensive that is now…The children depend on me, I’m a single mother.”

Kenia Valle, Managua, Nicaragua

These four voices provide a reminder that, in an increasingly interdependent world, economic shocks travel rapidly across borders (Emmett, 2009). Faced with a daily barrage of reporting on the state of the global economy and recovery prospects for rich countries, it is easy to lose sight of the human costs of the global downturn for those who live away from the media spotlight. The recession, sparked by reckless gambling on Wall Street and the regulatory failures in rich countries, is leaving its mark on people living in slums and remote villages in the world’s poorest countries. The effects on education systems are complex and varied, but overwhelmingly destructive.

Economic slowdown threatens education financing

The financial crisis is being transmitted to education systems through various channels. The degree to which countries are integrated into international trade and financial markets, the structure of employment, patterns of import and export, and pre-existing poverty levels all play a part in determining who is affected and for how long (McCord and Vandemoortele, 2009; te Velde et al., 2009). For low-income countries, trade is the primary transmission mechanism from world markets to the national economy, with exporters of minerals and primary commodities hit by a combination of lower prices and falling demand (IMF, 2009b, 2009e).

Deteriorating prospects for economic growth have far-reaching implications for education financing. Since the onset of the crisis, growth forecasts have been revised downwards on a regular basis. All developing regions are affected. With a pre-crisis growth forecast of over 5%, sub-Saharan Africa now faces the prospect of growing at less than 2%, which is below the rate of population increase. Latin America is projected to face an economic contraction in 2009 (Figure 1.1).

Slower growth and declining export and import activity have adverse consequences for government revenue and hence for public spending (IMF, 2009b, 2009d). Budgetary pressure is evident in data on fiscal balances. Sub-Saharan Africa is moving from a fiscal surplus in 2008 to a projected 2009 deficit equal to about 6% of gross domestic product (IMF, 2009e). The combined effect of slower economic growth and lower levels of revenue collection will translate into losses equivalent to about US$80 billion in 2009 and the same in 2010 (Table 1.1). This is revenue that could have been used for investment in areas ranging from economic infrastructure to health and education.

The importance of economic growth for education financing is not widely recognized. Rising wealth is not automatically associated with improvement in education – and many countries with low average incomes have registered extraordinary progress. But increasing national income does create financing conditions conducive to higher public spending on education. Economic growth expands the resources available to governments through taxation. Moreover, the share of national income collected in government revenue tends to rise as...
poverty falls, and economic growth is an important condition for sustained poverty reduction.

The experience of sub-Saharan Africa is instructive. During the 1990s, economic stagnation and high levels of external debt undermined governments’ capacity to finance education, with per capita spending declining in many countries. That picture has changed dramatically, with public spending on primary education rising by 29% over the period from 2000 to 2005 (Figure 1.2). This turnaround was instrumental in reducing the numbers of children out of school and strengthening education infrastructure. Around three-quarters of the increase was directly attributable to economic growth, with the balance accounted for by increased revenue collection and budget redistribution in favour of the education sector.

What does the economic slowdown mean for education financing in sub-Saharan Africa towards 2015? The answer will depend on the duration of the slowdown, the pace of recovery, governments’ approach to budget adjustments and the response of international donors. There are many uncertainties in each area. Nevertheless, governments have to draw up public spending plans in an uncertain environment. One way of capturing the potential threat to education financing is to consider a scenario that holds the share of expenditure invested in education constant, with adjustments for reduced economic growth and lower revenue-to-GDP ratios (Figure 1.3).
Double jeopardy: food prices and financial crisis

Figure 1.2: Economic growth matters for education financing
Primary education expenditure in sub-Saharan Africa between 2000 and 2005, growth decomposition

- Explained variation (%)
  - Total variation in spending
  - Change due to GDP growth
  - Change due to revenue collection
  - Change due to education budget allocation
  - Change due to primary education budget allocation


Figure 1.3: Education financing in sub-Saharan Africa could suffer from slower economic growth
Estimated forgone income for education due to the crisis in 2009 and 2010

- Pre-crisis projections
- Constant PPP 2006 US$ billions
  - Primary education spending
  - Total education spending

Notes: The shares of GDP devoted to education and primary education have been considered constant and correspond to median shares in 2007 for both data. Forgone income is the difference between education spending estimated with pre-crisis projections and that calculated with the most recent post-crisis projections.
Sources: IMF (2008, 2009g); UIS database.
In terms of the potential resources forgone for education spending, such a scenario would result in:

- an average loss over 2009 and 2010 of US$4.6 billion per year, compared with estimated aid disbursements to the region for basic education of US$2 billion;
- a cumulative loss to 2013 of about US$30 billion;
- a loss in 2010 of US$13 per pupil for primary school spending – equivalent to about 10% of current spending per pupil.

These figures provide only an estimate of one possible scenario. They do not chart an inevitable course. Even so, the magnitude of the potential economic growth effect serves to illustrate the budget pressures many countries face. And these new pressures have to be seen against the backdrop of an already large external financing gap – averaging around US$16 billion a year – for the Education for All goals in low-income countries (see Chapter 2).

**Wider human impact**

The economic downturn in the poorest countries has had direct consequences for vulnerable households. For people surviving below or just above the poverty line, it has meant less secure livelihoods. Income from remittances is falling. Employment prospects are diminishing in many countries. And the downturn has followed hard on the heels of a steep rise in international food prices, with higher levels of poverty superimposed on deteriorating nutrition indicators.

The combination of global food crisis and financial crisis has worsened the environment for achieving the Education for All goals. From 2003 to 2008, corn and wheat prices roughly doubled and rice prices tripled. Domestic price rises have not tracked those of international prices, but food price inflation reached over 17% in sub-Saharan Africa during 2008, rising to 80% in Ethiopia (Lustig, 2009; von Braun, 2008). In other regions, many countries recorded inflation rates in excess of 10%. Because poor households spend a large share of their budgets on food, price rises hit them particularly hard (World Bank, 2008a, 2008b). Many have had to cope either by diverting spending from other areas or by going hungry. Meanwhile, governments have faced rising food import bills and budget costs for nutrition programmes. Although food prices have started to fall, they remain high by historical standards. At the end of 2008, domestic staple food prices across a large group of developing countries averaged 24% higher than two years earlier (FAO, 2009).

The lethal cocktail of high food prices and economic recession has left a deep imprint on the lives of millions of vulnerable people. According to the Food and Agricultural Organization of the United Nations (FAO), the number of malnourished people in the world increased by 75 million in 2007 and by 100 million in 2008, reaching a global level of just over 1 billion (FAO, 2008). Recent FAO projections for 2009 indicate the financial crisis could push 125 million additional people into malnutrition (Headey et al., 2009). In some regions, drought has exacerbated underlying food security pressure associated with higher prices. For example, in Ethiopia, 12 million people are in immediate need of food and other assistance.

Poverty levels continue to fall, principally as a result of strong economic growth in China and India, but the rate of decline has slowed markedly. According to the World Bank, the downturn will leave an additional 75 million people below the US$1.25 poverty threshold in 2010 and an additional 91 million below the US$2 threshold (Chen and Ravallion, 2009).

Rising malnutrition and deteriorating prospects for poverty reduction have far-reaching consequences for education. Hunger undermines cognitive development, causing irreversible losses in opportunities for learning. There are often long time lags between the advent of malnutrition and data on stunting. But increased malnutrition among pre-school and primary school age children has been reported from several countries, including Guatemala (von Braun, 2008). Rising food prices have also had wider consequences for the place of education spending in household budgets. In Bangladesh, about a third of poor households report cutting spending on education to cope with rising food prices (Raihan, 2009). In Ghana and Zambia, poor households report eating fewer and less nutritious meals, and reducing expenditure on health and education (FAO, 2009). Government budgets have also been affected. In September 2009, Kenya announced plans to delay financing of free education for 8.3 million primary school children and 1.4 million secondary school children, prompting school administrators to press for a temporary restoration of user fees. The government
claimed costs associated with emergency feeding programmes forced the delay. More equitable avenues could have been explored, however.

Diminished prospects for reducing poverty will severely damage efforts to accelerate progress towards the Education for All goals. More poverty means parents have less to spend on children’s education. Household poverty also pushes children out of school and into employment. Counteracting the impact of rising poverty and deteriorating nutrition will require strengthening of social protection programmes – an issue discussed in Chapter 3.

Sub-Saharan Africa, which has the furthest to travel to achieve universal primary schooling, faces some of the starkest poverty-related threats to education. The region’s recent progress has been encouraging, driven by strong economic growth and poverty reduction. For the first time in over a generation, numbers living below the US$1.25-a-day poverty line have fallen: some 4 million people climbed out of poverty between 2000 and 2007. With per capita income set to shrink in 2009, however, poverty levels could rise.

The impact of rising unemployment is already registering on education systems as household budgets come under pressure (World Bank and IMF, 2009). In Zambia, around a quarter of jobs in the copper mining sector have been lost (te Velde et al., 2009). Rising unemployment was also reported in copper mining in the Democratic Republic of the Congo after export prices collapsed. In both countries, there have been reports of unemployed workers having to withdraw children from school (Hossain et al., 2009; Times of Zambia, 2009). Women often bear the brunt of deteriorating labour market conditions. One reason is that they are often concentrated in the hardest-hit export industries, such as garments and electronics. Limited employment rights and social insurance further increase their vulnerability (Emmett, 2009; ILO, 2009b). Evidence from Cambodia’s garment industry points to women being required to work longer hours for less pay, with adverse consequences for education spending.

Household provision for education financing is directly affected by the loss of remittances, a crucial element of financial transfers from richer to poorer countries – the US$308 billion transferred in 2008 far exceeded international development assistance. Flows of remittances are projected to decline by 7% in 2009 (Ratha et al., 2009). Both the decline and its overall effect will be uneven. Flows to Latin America and the Caribbean are falling in a lagged response to the slowdown in the United States, with El Salvador and Mexico recording declines in excess of 10% (Orozco, 2009). Ghana and Kenya report reductions of a similar scale (IMF, 2009b). For several countries, the impact will be very marked. In ten sub-Saharan African countries, including Ethiopia, Kenya, Liberia, Senegal, Sierra Leone and Uganda, remittances are equivalent to over 5% of GDP, rising to 20% in Lesotho (Committee of Ten, 2009). Also, with global remittances falling and urban unemployment rising, transfers to rural areas are declining.

Much of the evidence on the impact of these developments on education is anecdotal. Even so, it points in a worrying direction. Remittances are often vital to household spending on education. Evidence from Ghana and Uganda shows that as much as one-quarter of remittance income goes to education, pointing to potentially large losses of household investment (te Velde et al., 2009). In El Salvador and Haiti, where money sent from the United States contributes significantly to financing education, parents report growing difficulties in keeping children in school as remittances decline (Grogg, 2009; Thomson, 2009). It is not just the loss of international remittances that is hurting education. In China, unemployment has forced an estimated 20 million migrants to return to rural areas, and money that was previously being remitted for education has dried up (Mitchell, 2009).

Evidence from previous recessions and other external shocks shows how crucial it is for rich and poor countries alike to address the human costs of the current downturn. The East Asia financial crisis of 1997 resulted in major reversals in child health and education (Ferreira and Schady, 2008; Harper et al., 2009). In Indonesia, infant mortality increased and the proportion of children not enrolled in school doubled in 1998 (Frankenberg et al., 1999; Paxson and Schady, 2005a). The number of street children also rose sharply (Harper et al., 2009). Drought and disrupted rainfall have delivered similar setbacks to education in sub-Saharan Africa (Jensen, 2000; World Bank, 2007c). Not all the effects on education are straightforward. In some mainly middle-income countries, school enrolment increases during crises, partly because rising unemployment and falling wages lower the economic returns to child labour (Ferreira and Schady, 2008). But the overall impact is universally harmful to progress in education.
The challenge facing policy-makers today is to avoid repeating the experience of past crises. As the effects of the economic downturn are transmitted to more households, those lacking the resources to cope with the shock risk being pushed into a downward spiral. Short-term coping strategies such as cutting spending on health, nutrition and education can have damaging long-term consequences for individuals and societies. Governments and the international community can contain the damage by investing in social protection. But a consistent lesson from previous crises is that early, up-front investment in crisis prevention through social protection is more effective than treatment after the event.

**Budget monitoring matters**

Many governments in low-income countries are reassessing public spending plans in the face of mounting fiscal pressure. Their room for manoeuvre depends on a range of factors, including the pre-crisis fiscal balance, recovery prospects, and domestic and international financing options. The impact of budget adjustments on public spending plans for education will vary according to circumstance and policy choice. Options include cutting spending in real terms, scaling down planned increases or maintaining current spending plans through revenue raising and redistribution within the budget. Decisions made over the next year in these areas will have profound consequences for education financing. Public spending cuts, or caps that are set below planned levels, will ultimately translate into fewer classrooms built, fewer teachers recruited and trained, and more children out of school.

Current monitoring exercises do not adequately track budget decision-making processes. International data provide comprehensive cross-country coverage of public spending, but with a significant delay. For example, this year’s Report documents expenditure for 2007. While vital for monitoring broad post-Dakar trends, such information reveals nothing about the direction of the public spending plans that will define the future.

This information gap is difficult to defend. Data for the current and previous budget years are available in most countries, as are budget revision and review documents. The problem is that the data are not assembled and made publicly available by international or regional organizations. In the words of an analysis of education budgets in sub-Saharan Africa carried out for this Report: ‘It is rather shocking in view of the strong emphasis given to monitoring progress … that there is not a more current database for analysing education spending’ (Martin and Kyrili, 2009, p. 14). The current crisis has added to the urgency of filling this information gap.

One central conclusion is that UNESCO should be far more effective in monitoring current-year public spending on education and reviewing revisions to future spending plans.¹ Through UNESCO regional offices and the UNESCO Institute for Statistics, a regional network of education ministries’ planning and budget directors could be established. To further strengthen the monitoring process, national poverty reduction strategy coordinators could be included, along with finance ministry officials overseeing medium-term expenditure strategies.

To assess the threat to Education for All financing, the Global Monitoring Report team commissioned Development Finance International to review the 2009 budgets of all thirty-seven low-income countries in sub-Saharan Africa (Martin and Kyrili, 2009). This should be viewed as both a partial and preliminary exercise. It is partial because detailed and consistent information on education expenditure from the 2009 budget was available for only twelve countries, and it is preliminary because the budget documents consulted reflect pre-crisis conditions. Broad budgetary patterns for the countries covered can be summarized under four headings:

- **Plans to increase expenditure on education in relation to GDP and the overall budget.** Five of the twelve countries are in this category: Burkina Faso, Liberia, Mozambique, Sierra Leone and Zambia. Liberia, Sierra Leone and Zambia envisaged a significant reallocation to education within a growing budget. In Mozambique, education spending was projected to grow significantly as a share of GDP but only marginally as a share of the budget, reflecting a planned rise in non-social sector spending. It should be stressed that governments in several of these countries have raised concerns over their capacity to finance planned education spending. A May 2009 report on Mozambique, for example, projects that revenue will be 1.3% below the level indicated in the approved budget, which could adversely affect spending plans.

- **Plans to maintain education spending at current levels in relation to GDP and total budget**
spending. Two countries – Kenya and Uganda – fall into this category. Both have significantly increased financing for education in recent years. Here, too, crisis-related problems could hamper implementation.

- **Plans to increase education spending as a share of GDP but to maintain or cut the share of education in the national budget.** The countries concerned are Lesotho, Rwanda and the United Republic of Tanzania. Lesotho plans to raise the ratio of education spending to GDP while maintaining the budget share. Rwanda’s budget envisages a rise in the share of education spending in GDP but a slight fall in the budget percentage because of a shift towards agriculture and infrastructure. The United Republic of Tanzania plans to maintain the GDP share held by education spending but to reduce the budget share, as the country’s national poverty reduction strategy entails dramatic increases in expenditure on agriculture, infrastructure and water. All these plans are highly susceptible to economic pressure, which could change patterns of budget allocation to the detriment of basic education. For example, Lesotho’s response to the threat of rising unemployment was to shift spending priorities from pre-school and primary education to technical and vocational training.

- **Plans to cut education spending as a share of GDP and total expenditure.** Two countries – Benin and Ghana – fall into this category. In Benin, the planned cut reflects reallocation of budget spending away from education and other social sectors. In Ghana, it is less a direct result of the economic crisis than an effect of a domestic budget crisis inherited from the previous government. In both cases, it is likely that stagnant or declining economic growth will compound the cuts, resulting in significantly fewer resources available for education spending. There is a danger that Benin’s strong progress in recent years towards universal primary education, documented in Chapter 2, will be reversed. In Ghana, efforts to address education marginalization in the north could be undermined (see Chapter 3).

This overview contains good news and bad news. The good news is that current evidence indicates that few governments are cutting education spending. The bad news is that the changing picture may look worse than that captured in current budget analyses. Most budgets of low-income African countries reviewed by Development Finance International were approved by parliaments at the end of 2008, before national economies registered any significant impact of the crisis. Mid-term budget reviews may result in marked adjustments in spending. Close monitoring of actual spending on education, and of restrictions on spending, is vital. Formal revisions to 2009 budgets and public spending plans drawn up amid changing fiscal conditions have to be carefully assessed, as do discrepancies between 2009 budget allocations and actual spending. But the full impact of the downturn is likely to be more fully revealed in 2010. There is already evidence of budget revision in some countries. For example, after copper prices collapsed, Zambia’s government removed a windfall tax on mining companies that was to have financed an increase in education and other social spending (te Velde et al., 2009).

It is important to base budget monitoring exercises on appropriate benchmarks. Much has been made of the fact that, to date, relatively few low-income countries have cut public spending in general or priority social sector spending in particular. As far as it goes, this is clearly a positive outcome. However, what ultimately matters for progress on the Education for All goals and wider human development measures is whether planned increases in public spending have been compromised. Governments in many low-income countries have drawn up medium-term expenditure plans for education, often as part of wider poverty reduction strategies supported by donors. The plans are linked to activities such as classroom construction, teacher recruitment, purchases of teaching materials and special programmes for marginalized children. These activities are in turn aimed at specific targets for getting children into school and raising the quality of education. To the extent that budget pressures translate into levels of expenditure that are lower than planned, they will compromise any prospect of accelerated progress towards the Dakar goals.

What happens beyond the education sector is also crucial. Progress in education is inevitably influenced by developments in other key areas, including child and maternal health, and water and sanitation. The national and international response to the economic crisis thus needs to reflect an integrated strategy for protecting human development across a broad front.
Expanding ‘fiscal space’: an Education for All priority

Unlike rich countries, most developing countries lack room for manoeuvre in national budgeting

The term ‘fiscal space’ describes a factor that has profound consequences for governments’ capacity to finance vital social and economic programmes. Put most simply, it is about room for manoeuvre in national budgeting. Tax revenue is the primary source of finance for public spending. But governments can also resort to other revenue-raising measures, including domestic or international borrowing, printing money and, in the case of the poorest countries, international aid. The options open to governments vary widely – but they are most limited in the poorest countries.

‘Fiscal space’ defines the budget parameters within which governments have to operate. The International Monetary Fund (IMF) defines it as ‘room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy’ (Heller, 2005, p. 32). Less technocratic approaches would incorporate the financing of wider human development goals, including Education for All (Roy et al., 2007). In the context of the global recession, the issue facing governments is that of using national budgets to strengthen demand, stabilize financial systems and maintain vital social investments despite a shrinking revenue base.

Rich countries have responded to the financial crisis by exploiting fiscal space on an epic scale. With their economies contracting, their financial systems requiring support and demands on public spending for social welfare rising, fiscal policy has provided a major stimulus. Overall fiscal deficits are projected to increase by about six percentage points of GDP, with spending financed by a large increase in public debt. Much of this has been used to shore up banking systems. While bank bail-outs are not strictly comparable to aid flows in financial terms, the contrast between what has been mobilized in the two cases is striking. The four largest asset investments for commercial banks

obliged the governments of the United Kingdom and the United States to take on US$786 billion in potential liabilities – over seven times the amount of total international development assistance flows.4

Fiscal policy has also played a wider role in advanced economies. Public spending has gone to support demand and unlock credit markets, creating a countercyclical stimulus for recovery. Many governments have used that spending to strengthen the social and education infrastructure. In the United States, the American Recovery and Reinvestment Act (ARRA) passed by Congress in February 2009 delivered a prospective US$789 billion stimulus to the economy. That stimulus also staved off a financing crisis in education that threatened to result in thousands of teachers being laid off and many schools closed (Box 1.1).

Unlike rich countries, most developing countries operate in a highly constrained fiscal environment. Some, including China and India, have been in a position to counteract the impact of the downturn through increased public spending. But the majority of the poorest countries are walking a fiscal tightrope. Overall tax revenue ratios are projected to decline in well over half of all low-income countries and by more than 2% of GDP in one-quarter of them (IMF, 2009c). Meanwhile, pressures to increase spending arise from several sources, including the need to finance social protection programmes. The combination of limited fiscal space and revenue decline has the potential to translate into painful public spending adjustments, including in education.

The research for this Report by Development Finance International explored the dimensions of the fiscal space available to thirty-seven low-income countries in sub-Saharan Africa that are facing financing challenges in education (Martin and Kyrili, 2009).5 This ‘fiscal space assessment’ starts by defining ‘sustainability thresholds’, based on comparative international evidence, in three key areas: domestic and international borrowing, revenue mobilization and aid.6

2. On average, public debt will climb from around 70% of advanced economy GDP in 2008 to a projected 100% by 2010 (IMF, 2009g).

3. Capital injections, debt guarantees and asset guarantees represented 44% of GDP for the United Kingdom and 7% for the United States as of June 2009 (Martin and Kyrili, 2009).

4. The programmes involved Citigroup, Royal Bank of Scotland, Lloyds and Bank of America (Panetta et al., 2009).

5. The countries are those classified by the World Bank as ‘IDA-only’: eligible only for concessional International Development Association loans. Hence the list includes Cameron, the Democratic Republic of the Congo and Djibouti, even though the latest World Bank data put them in the lower middle income category.

Box 1.1: The Obama rescue plan – protecting education during the economic downturn

Governments across the developed world have used national budgets to counteract the effects of the economic downturn. In the United States, the US$789 billion American Recovery and Reinvestment Act (ARRA) of February 2009 is aimed at providing a platform for early recovery and protecting the social and economic infrastructure, with education a high priority.

ARRA has attempted to turn the threat to education posed by the recession into an opportunity. With public finances damaged by slower economic growth and rising expenditure in other areas, education spending was in jeopardy in many states. Thousands of teachers faced the prospect of being made redundant. Under ARRA, the federal government stepped into the breach left by collapsing state financing (which accounts for around 90% of education spending). Around US$130 billion will be injected into education and related budgets to stabilize finances and extend opportunities for children from disadvantaged backgrounds. The following are among the most important measures:

- States are to benefit from US$39.5 billion designated for public school districts and higher education institutes under the ‘state fiscal stabilization’ fund.
- School construction and upgrading projects will receive US$22 billion.
- Funding for targeted programmes aimed at special education and children from the most disadvantaged backgrounds will be increased by around US$25.2 billion. ARRA will increase 2009 fiscal year spending on Title I – a set of specialized classroom programmes supporting learning in schools with high concentrations of poor children – to US$20 billion from about US$14.5 billion. Spending on education for children with disabilities will rise to US$17 billion from US$11 billion.
- Head Start and early Head Start pre-school programmes will receive an increase of US$21 billion.
- About US$4.3 billion has been allocated to a ‘Race to the Top’ Fund aimed at recruiting and retaining effective teachers and raising standards in low-performing schools.

ARRA has sparked a wide-ranging debate about the respective roles of federal and state governments in education financing. With the Department of Education’s discretionary budget rising from US$60 billion in 2008 to a projected US$146 billion in 2010, the balance between state and federal financing has been dramatically changed. But without the emergency financing, thousands of teachers would have been made redundant, many schools would have closed and education quality would have suffered. As one congressman put it, ‘We cannot let education collapse; we have to provide this level of support to schools.’

The world’s poorest countries cannot afford to let education collapse either. Yet, unlike rich countries, most lack the budget resources to provide the support their education systems need to avert collapse.

Sources: US Department of Education (2009); National Education Association (2009); Dillon (2009).

Sustainable borrowing. Given the region’s long history of unsustainable external debt, borrowing on international markets comes with high risk for most low-income countries in sub-Saharan Africa. The assessment sets a threshold for external debt based on the ‘Debt Sustainability Framework’ developed by the IMF-World Bank. For domestic debt, it uses the IMF threshold indicator of a nominal debt stock of 15% of GDP as an indicator for sustainability.

Sustainable domestic revenue levels. Raising more revenue is another way for governments to generate resources for public spending. Low-income African countries have made major strides in recent years by increasing taxes and expanding the tax base, but it is widely recognized that there are limits to how much they can increase tax collection. Governments have to avoid creating disincentives for investment and generating deflationary pressure, especially in the current context. In the absence of a viable threshold indicator, the assessment uses an ‘acceptable effort’ indicator for revenue collection set at 17% of GDP (excluding grants). This is one of the convergence criteria for the CFA franc zone.

Sustainable aid levels. Another way for low-income African countries to expand fiscal space is to obtain more grants. While aid flows to Africa have increased substantially in recent years, they still fall far short of overall pledges made in 2005 and education-specific pledges made in 2000 [see Chapter 4]. Studies have indicated that excessive aid dependence can have damaging effects.
consequences for economic growth and governance, but there are no clear parameters for sustainable aid levels. Using evidence from recent studies, the Development Finance International assessment assumes that countries receiving aid levels that exceed 25% of gross national income have no space to increase their aid dependence.

These three pillars of sustainability cannot be viewed in isolation. Even if a country has scope to gain access to more finance through borrowing or aid, it may decide not to exploit this fiscal space because of the risk of macroeconomic instability. The fiscal space assessment therefore includes checks for fiscal balance and inflation.

Overall fiscal space is assessed in two steps. First, each country’s ability to obtain and use resources through each of the three instruments – debt, domestic revenue and aid – is determined by reference to the thresholds. Countries below all three thresholds are described as having high fiscal space. Countries constrained on one indicator are classed as having moderate space, on two indicators as having low space and on all three as having no space. The second step is to adjust the outcomes to reflect the two check indicators.

Table 1.2 shows the results. After adjustments for fiscal deficits and inflation risk, five countries have no fiscal space. At the other end of the spectrum, four have high space and the option to resort to all three financing instruments. Seventeen countries have ‘low space’ and eleven ‘moderate space’, indicating scope to resort to one or two instruments, respectively. Further analysis points to a diverse set of policy options that depend on national circumstances and highlights choices facing governments and the international community over what type of resources should be made available to protect high-priority spending in education and other areas (Figure 1.4).

- **International aid.** Twenty-five countries have the fiscal space to use more development assistance, and eleven have no domestic alternatives. This implies that an increase in grant flows is the primary means open to low-income African countries seeking to avoid cuts and sustain spending plans in high-priority social sectors.

- **Domestic revenue.** Around fifteen countries could raise more revenue on the basis of the 17% of GDP norm, but seeking to raise revenue in the midst of a steep economic downturn is likely to damage recovery prospects.

- **Borrowing.** Between eleven and fourteen countries could borrow more without compromising their overall public debt sustainability. When external and domestic debt are looked at together, however, the scope for expansion is limited.

A vital policy lesson can be drawn from this assessment: increased aid has the most immediate potential for increasing fiscal space. Early action on a sufficient scale could provide the budget resources needed to pre-empt potentially damaging public spending adjustments in education and other areas. It is critical to deliver this aid before fiscal pressures convert the financial crisis into an irreversible long-term human development crisis, with attendant consequences for progress in education.

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**Table 1.2: Fiscal space in sub-Saharan Africa, selected countries**

<table>
<thead>
<tr>
<th>Mode</th>
<th>High (4 countries)</th>
<th>Moderate (11 countries)</th>
<th>Low (17 countries)</th>
<th>None (5 countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mali, Rwanda, Uganda, United Republic of Tanzania</td>
<td>Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Lesotho, Madagascar, Mozambique, Niger, Nigeria</td>
<td>Congo, Côte d’Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Kenya, Malawi, Mauritania, Sao Tome and Principe, Senegal, Sierra Leone, Sudan, Togo, Zimbabwe</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


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7. Here the assumption is that a country can use aid but cannot borrow more if its fiscal deficit exceeds 3% of GDP, since this could have damaging inflationary effects. Similarly, if a country has reached the ‘acceptable effort’ threshold for revenue mobilization, increasing aid grants might push up inflation, whereas if it has scope for revenue-raising, the inflation effects could be neutralized.
EDUCATION AT RISK: THE IMPACT OF THE FINANCIAL CRISIS

Expanding ‘fiscal space’: an Education for All priority

Figure 1.4: Many countries lack room for manoeuvre in budget management but could use more aid
Policy options available to increase resources and protect social sector spending, selected sub-Saharan African countries, 2009

The international response: missing a human dimension

The threat that the financial crisis poses to internationally agreed human development goals is widely recognized. The G20 communiqué of April 2009 acknowledged the ‘human dimensions’ of the threat in particularly forthright terms (Group of Twenty, 2009, para. 25):

We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential.

Subsequent gatherings have reaffirmed the concern. At the G8 summit in July in L’Aquila, Italy, the governments of the world’s richest nations declared that they remained focused on the human and social consequences of the crisis. ‘We are determined’, their communiqué declared, ‘to undertake measures to mitigate the impact of the crisis on developing countries, and to continue to support their efforts to achieve the Millennium Development Goals’ (Group of Eight, 2009c, para. 6). To what extent have political leaders in the countries that caused the crisis acted on their ‘collective responsibility’ to mitigate its effects?

Financial resources have been made available on a large scale, both domestically and internationally. Advanced economies have spent around US$10 trillion shoring up their financial systems by providing capital, loan guarantees, lending and asset protection. That figure represents around 30% of their combined GDP. Under the G20 recovery plan, the IMF has been used to strengthen global liquidity and bolster fragile financial systems. This national and international response has been vital to staving off a far deeper global crisis and creating the conditions for recovery. After a severe global recession, economic growth has turned positive as wide-ranging public finance interventions have supported demand and reduced financial risk. Yet the report card on support for the poorest countries is deeply unimpressive.

Headline figures on global financing have masked three problems. First, the poorest countries have been largely bypassed (Woods, 2009b). As the president of the African Development Bank put it, ‘only a small proportion of the resources announced at the G20 summit in London will trickle down to low-income countries’ (Kaberuka, 2009). Second, much of the support that does trickle down will arrive too late and on terms that are inappropriate for the financing needs of the poorest countries.

The third concern is that much of what has been presented as ‘new and additional’ finance is in fact repackaged or reprogrammed aid. This ‘smoke and mirrors’ financial reporting has obscured the collective failure of developed countries to decisively deliver resources on the required scale. Some new resources have been made available, principally through the IMF. In the case of the World Bank, which G8 and G20 rhetoric places at the centre of the crisis response for the poorest nations, very few additional resources have been mobilized (Woods, 2009b). Instead, the institution has been left to reconfigure its resources to mount a response.

Consolidating current financing for low-income countries is problematic because of uncertainties over commitments. On an optimistic assessment, new concessional financing potentially available to low-income countries amounts to between around US$2 billion and US$3 billion annually for the next two to three years.8 That figure has to be set against the annual revenue loss of US$80 billion for sub-Saharan Africa alone in 2009.

It is easy to lose sight of what is at stake for the international development goals in education. The everyday concerns of parents struggling to keep their children in school in a slum in Lusaka or a poor village in Senegal seem far removed from the international summits on the global financial crisis. Yet the connections are real. As rich countries take the first steps towards economic recovery, the aftershock of the crisis is jeopardizing the efforts of the world’s poorest households to secure for their children an education that might lift them out of poverty. Containing the aftershock will require a strengthened focus on financing for human development.

Much of what has been presented as ‘new and additional’ finance is in fact repackaged or reprogrammed aid.

8. In the period to 2010, IMF concessional loans could rise by up to US$8 billion. The estimate for this Report adds US$2 billion for various commitments undertaken through bilateral aid programmes and World Bank trust funds, though this is almost certainly an overestimate.
The crisis response

The framework for the international response to the financial crisis was set at the G20 summit in April 2009, with the ensuing G8 summit supplementing the agreement. The recovery strategy gave the IMF wide-ranging responsibility for strengthening global liquidity by expanding currency reserves to prevent further financial crises and by providing concessional finance for low-income countries. The World Bank was given responsibility for financing measures aimed at strengthening social protection and tackling food supply problems.

The checklist of global financing commitments and provisions for the poorest countries is expansive and superficially impressive. Much of the new financing has come through the IMF:

- **Boosting global liquidity and strengthening financial stability.** Under the G20 plan the IMF has injected US$283 billion into the global economy in Special Drawing Rights (SDRs), currency reserves that can be exchanged for hard currency. New SDR allocations effectively supplement IMF members’ existing currency reserves, thereby providing liquidity to the international economic system. The IMF’s credit lines for emerging markets have also been reinforced through the creation of a new facility and the strengthening of existing facilities.

- **Scaling up concessional financing.** Measures have been introduced to increase the IMF resources available to low-income countries through the fund’s Poverty Reduction and Growth Facility (PRGF). The measures could increase concessional lending by US$17 billion through to 2014, up to US$8 billion by 2010. Several new financial instruments have been created to provide more concessional support to low-income countries. In addition, the IMF has modified its Exogenous Shocks Facility (ESF), a mechanism aimed at providing support to countries facing exceptional problems as a result of conflict, natural disaster, falling commodity prices or rising food prices [Bredenkamp, 2009a, 2009b; IMF, 2009a, 2009d; Woods, 2009b].

The G20 meeting signalled a broad agenda for the World Bank. It included what was termed ‘a substantial increase in lending of US$100 billion’ and increased bilateral contributions for a range of crisis-response facilities aimed at strengthening social protection and wider poverty interventions [Group of Twenty, 2009]. These include the new Infrastructure Crisis Facility, Vulnerability Framework and Rapid Social Response Fund. The World Bank was also made institutional lead actor in the response to the global food crisis. At the G8 summit, governments pledged to provide US$20 billion over three years to support countries struggling with higher food import bills [Group of Eight, 2009b].

The IMF and World Bank facilities have attracted a great deal of media attention. An impression has been created that rich countries have moved rapidly to extend to the world’s poorest countries the same principles applied in their domestic responses to the crisis. That impression owes less to real financial transfers than to some questionable reporting practices.

Consider first the IMF component of the global recovery package. The initial expansion of post-crisis lending bypassed the poorest countries, principally because it was directed towards financial stabilization in Europe and some emerging markets. Of the eighteen new lending agreements the IMF had approved by late July 2009, 82% were directed to Europe and 1.6% to Africa [Woods, 2009b]. While low-income countries will have their currency reserves boosted by the new SDR issue, the allocations are linked to the size of national economies (the increased allocation for France exceeds that for all of sub-Saharan Africa). Moreover, an expansion of the national currency reserve does not automatically generate additional resources for high-priority budgets.

What of the increase in concessional lending through the IMF? As of October 2009, this was the only source of new and additional financing linked directly to the global financial crisis. The IMF claims the new arrangements enable it to make up

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9. Low-income countries will receive an additional US$17 billion in SDRs [Gottselig, 2009].

10. In April 2009, the IMF announced the creation of a new flexible credit line and increased flexibility for its standard stand-by arrangements.

11. These are the Extended Credit Facility (medium-term support), the Standby Credit Facility (short-term and precautionary support) and the Rapid Credit Facility (emergency support).

12. Much of the additional IMF support to low-income countries in 2009 came through the Exogenous Shocks Facility, whose financing terms are equivalent to those of the PRGF.
to US$8 billion available in 2009 and 2010, though one-quarter of that figure is accounted for by early disbursement of existing loans. The G20 framework makes about US$6 billion in new concessional lending resources available to the IMF over 2009–2012 (around US$2 billion annually) for all low-income countries. The IMF itself estimates that the increased lending capacity will cover only 2% of low-income countries’ external financing needs (IMF, 2009d; Woods, 2009b). Actual transfers of new financing will be contingent on the rate of disbursement. Given that disbursements through the PRGF are often disrupted because countries cannot comply with loan conditions, there are serious questions over the prospects for timely delivery.

The World Bank’s role in the international response to the crisis is characterized by a large gap between words and money. Many commitments in the G20 communiqué, notably those directed to low-income countries, represent not new money but an imaginative ‘relaunch’ of past pledges.13 Others effectively exempt the G20 countries from providing new and additional financing, with bold language on scaling up social protection backed only by a vague pledge of ‘voluntary bilateral contributions’.

The World Bank has been left to act on the G20 agenda mainly by drawing upon its own resources and facilities. While strong pronouncements have been made declaring that World Bank support to crisis-affected countries is at a ‘record high’, increased lending has been sustained not by higher donor support, but by a combination of early disbursement of funds – front-loading – and reprogramming.

The Global Food Crisis Response Programme (GFRP) is a case in point. After eighteen months the programme had disbursed US$795 million, or 68% of its original funds – far too slow a pace given the immediacy of the crisis (United Nations Conference on Trade and Development, 2009). Interventions have ranged from support to school feeding programmes in Burundi, Liberia and Senegal to safety-net programmes in Ethiopia, the United Republic of Tanzania and Yemen, and budget support in Bangladesh, Cambodia and Honduras. These programmes provide vital social protection, but the bulk of GFRP finance comes not from increased aid but from existing country allocations, regional International Development Association (IDA) funds and resources transferred from other facilities (Delgado, 2008). The only new source of finance has been a multidonor trust fund that channelled US$200 million to the GFRP. Most of the US$20 billion pledged at the G8 summit for food supplies also involves the diversion of existing aid commitments rather than new money.

Some World Bank programmes appear not to have taken off on any scale. The Rapid Social Response Fund was created to assist poor and vulnerable populations in developing countries, mainly from the World Bank’s own resources. As of September 2009, only one programme appears to have been approved – a cash transfer and nutrition intervention for children under 5 in Senegal (World Bank, 2009).

Other programmes have generated large headline numbers under the banner of ‘crisis response’ with little in the way of new financing. In 2009, the World Bank significantly increased financing provisions for countries affected by the crisis. Commitments under IDA reached US$14 billion in 2009 and a new US$2 billion facility was created to provide early support in key areas of social protection, health and education. Almost half the allocations available had been disbursed by late 2009 (World Bank, 2009d). However, most of the new financing came from front-loading of IDA allocations for low-income countries (Figure 1.5). Burkina Faso, Liberia and Senegal, among others, received over 150% of their planned IDA allocations in 2009.

As a crisis response measure, front-loading makes sense. Faced with mounting budget pressure and rising poverty, countries need early aid. For households confronting hunger, health risks and the challenge of keeping children in school, delays in social protection carry a high price. But front-loading does not increase the overall resources available to governments over the full cycle of programme support. Moreover, it comes with its own risks, including the risk of financing deficits in later years.14

The upshot is that the World Bank has been involved in an elaborate financial reshuffle. Efforts by the institution itself to address the issue of making new resources available have not been

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13. One example is the pledge of US$100 billion in additional multilateral lending, originally made several months before the G20 summit, with India, Indonesia and Ukraine identified as being among the potential beneficiaries.

14. The World Bank is not alone in combating the human development emergency through creative accounting. Plans drawn up by the EU Commission in May 2009 announced an intention to mobilize 8.8 billion euros (approximately US$12 billion at May 2009 exchange rates) in development financing as a crisis response, but almost all the commitments and pledges behind this figure come from pre-existing commitments (Woods, 2009a).
wholly successful. Before the G20 summit, World Bank President Robert Zoellick called on developed countries to put aside the equivalent of 0.7% of their stimulus package for a new Vulnerability Fund (World Bank, 2009l). This was an innovative attempt to create a financing base for new and additional aid to countries lacking the fiscal space to respond to the crisis, enabling them to create the conditions for recovery and strengthen social protection. Mr Zoellick noted that the real issue at stake was a choice between an ‘age of responsibility or an age of reversal’ (Zoellick, 2009). That formulation captures the options rich countries face with respect to the international development goals in education and other areas. Evidence to date suggests that the ‘age of reversal’ is the default choice.

There are wider problems in the G20 response to the crisis related to the respective roles of the IMF and World Bank. The latter would have been the obvious institution to lead the response to the special challenges facing low-income countries. It has a far stronger capacity than the IMF for rapid assessment of the budgetary implications of the economic downturn on financing for the Millennium Development Goals. It has also played a leading role in supporting and developing social protection programmes. Moreover, the International Development Association, the World Bank’s main source of financing for low-income countries, provides loans on more concessional terms than the IMF’s Poverty Reduction and Growth Facility. For all of these reasons, the World Bank and the IDA should have been the first line of defence in the response to the crisis.

The IMF’s track record in poverty reduction efforts has prompted further questions about its enhanced role. In 2004, the IMF Independent Evaluation Office concluded: ‘Success in embedding the PRGF in the overall strategy for growth and poverty reduction has been limited in most cases’ (IMF, 2004). Several commentators have identified an inflexible approach to targets, enshrined in loan conditions for inflation, fiscal deficits and public spending, as a source of tension between the IMF approach to macroeconomic stabilization and the financing strategies aimed at achieving the Millennium Development Goals. That tension has been evident in debates over financing for education. For example, the Global Campaign for Education concludes a review of twenty-three IMF programmes by warning of a potential conflict between spending targets set in loan conditions and financing requirements for teacher recruitment (Global Campaign for Education, 2009).

In the wake of the financial crisis, the IMF’s senior management has pledged to adopt more flexible approaches to fiscal deficits and inflation (IMF, 2009d; Sayeh, 2009). This is vital, because fiscal policy should counteract the crisis, not create deflationary pressures. There is some evidence of greater flexibility being applied at the country level in sub-Saharan Africa. Even before the crisis, inflation targets had been loosened to reflect the impact of higher food prices. In mid-2009, the IMF reported that fiscal targets had been relaxed in eighteen of the twenty-three countries with active programmes (IMF, 2009d). However, questions remain over the degree to which the recent declarations reflect a new approach to macroeconomic management. Loan conditions in several countries examined in the United Nations’ 2009 Trade and Development Report – including Côte d’Ivoire, Ethiopia, Pakistan and Senegal –

15. PRGF loans are provided at 0.5% interest and are repayable over ten years with a five-year grace period. The PRGF has a grant element of around 30%. IDA provides interest-free credits repayable over thirty-five to forty years with a ten-year grace period. The grant component of IDA is roughly double that of the PRGF.

16. A preliminary review of programmes for thirty-three low-income countries indicates that the deficit is being allowed to widen in around twenty cases (though in some instances just for 2009) and is staying the same or falling in the other countries (Martin and Kyrili, 2009).
include the tightening of fiscal and monetary policy. The authors conclude: ‘Policy conditions attached to these IMF loans are fairly similar to those of the past, including a requirement that recipient countries reduce public spending and increase interest rates’ (United Nations Conference on Trade and Development, 2009). This would appear to be inconsistent both with the IMF’s policy pronouncements and – more importantly – with the need to avoid deflationary measures in the interests of economic recovery and long-term poverty reduction.

Looking ahead

The United Nations Secretary-General has warned in stark terms that the financial crisis has the potential to mutate into a long-term development emergency. ‘If we do not act together, if we do not act responsibly, if we do not act now,’ he said in May 2009, ‘we risk slipping into a cycle of poverty, degradation and despair’ (United Nations, 2009b). The danger is that as the world economy pulls out of recession, the real victims of the crisis will be forgotten, including millions of children facing the prospect of losing their chance for an education.

The most immediate priority is for rich countries to respond to the mounting budget pressure facing governments in low-income countries. That means providing more concessional financing before irreparable damage is inflicted on vital social infrastructure. While leaders of the G20 and the G8 have adopted encouraging communiqués, delivery has been woefully inadequate. Behind the global financial pledges, the world’s most vulnerable citizens have been left to sink or swim with their own resources. As social and economic pressures mount, there is an imminent threat that progress in education will stall, damaging prospects for economic growth, poverty reduction and health. Political leaders in rich countries need to respond to the human crisis in poor countries with the same level of resolve they have demonstrated in their domestic responses to the crisis.

Action is required at many levels. The following are among the most urgent priorities:

- **Convene a high-level meeting on Education for All financing before the 2010 Millennium Development Goals summit.** Financing gaps for achieving the 2015 Education for All goals have been systematically underestimated. Evidence set out in this Report (see Chapter 2) suggests that the average annual shortfall in financing is around US$16 billion, rather than the US$11 billion previously assumed. With slower economic growth in the poorest countries, prospects for closing this gap are deteriorating. Given the scale of the financing gap and the failure of rich countries to support social and economic recovery in the poorest countries, the United Nations Secretary-General should convene a high-level meeting to elaborate strategies for making more resources available before the Millennium Development Goals summit in September 2010.

- **Scale up aid and provide early support.** If developing countries are to protect and strengthen public financing commitments in the face of an economic downturn, they need a sustained and predictable increase in aid and up-front support to counteract revenue losses from 2008 and 2009. The financial crisis has added to the urgency of rich countries acting on the aid commitments made in 2005 (see Chapter 4). Increased official development assistance should be backed by a temporary debt moratorium for low-income countries for 2009 and 2010, with the savings released for spending in key areas. Such a moratorium would cost around US$26 billion in total (United Nations Conference on Trade and Development, 2009).

- **Make monitoring more effective.** Waiting until the education crisis announces itself in official data is not a sensible course of action. Crisis prevention – which is eminently preferable to response after the event – requires far more
effective and current monitoring of government budgets, school attendance and dropout rates. UNESCO should take the lead in this area, working through national education and finance ministries and coordinating a wider donor response. It is particularly important that the implementation of 2009 budgets, real education spending and 2010 budgets are subject to close scrutiny. Beyond outright cuts in public spending, monitoring should focus on disparities between planned spending in education sector strategies and actual spending.

Ensure that IMF support is provided on a flexible basis that is consistent with achieving the Education for All goals. Statements by the IMF leadership pointing to greater flexibility in loan conditions on fiscal deficits, inflation and public spending are welcome, but concerns remain over whether this flexibility will be maintained in 2010 and beyond. In drawing up loan conditions, IMF staff should be required to report explicitly on consistency with the financing requirements for achieving the core Education for All goals by 2015. Special priority should be put on the costs associated with teacher recruitment, training and remuneration.

Increase support through the International Development Association. IDA is the most appropriate multilateral financing vehicle for mitigating the effects of the economic downturn in the poorest countries. While the World Bank has demonstrated a capacity for innovation in front-loading IDA financing, transferring resources from other facilities and redirecting existing country allocations, this approach is neither a sustainable nor a credible response to a systemic crisis in financing for international development goals. Front-loading also raises uncertainty over future financing for education and other high-priority sectors. To guard against this uncertainty and place IDA financing on a more balanced footing, donors should undertake a binding commitment to increase the resources available during the next replenishment. Donors should pledge to increase their support for World Bank concessional loans from US$42 billion in the fifteenth IDA replenishment to US$60 billion in IDA-16, which begins in 2010.

Make social protection a high priority. Protecting education budgets is just one of the requirements for sustained progress towards key Education for All goals. Rising household poverty linked to the economic crisis brings with it the prospect of increased child labour, deteriorating nutrition and reduced capacity for investment in education. Social protection, through cash transfers, nutrition programmes and targeted support in other areas, has been shown in many countries to build the resilience of vulnerable households and strengthen their ability to cope with economic shocks without resorting to damaging measures such as withdrawing children from school. As Chapter 3 shows, government and donor support can make a huge difference in this area.