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THE IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON THE EDUCATION SECTOR

No. 1: The Impact of the Crisis on Public Expenditure on Education: Findings from the UNESCO Quick Survey

30 June 2009

The Education Sector

Preliminary Note

This is the first report in a series of papers on the *Impact of the global financial and economic crisis on the education sector*. This series is coordinated by the Division for Education Strategies and Capacity Building, in collaboration with other UNESCO units.

Devoted to the subject of the *Impact of the crisis on public expenditure on education*, this report is based on the Quick Survey launched in March 2009 by the Education Sector of UNESCO to assess the impact of the crisis on educational spending in its Member States.

Given the incompleteness of the data collected in some survey returns, other information sources were used to complement the country responses, especially to verify the validity of information on macro-economic outlooks and the Official Development Assistance (ODA) flows.

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Executive summary

1. The current financial and economic crisis is expected to have a negative impact on educational development in many developing countries. Although it is too early to assess its magnitude, there have been various warnings about the effects of the crisis on public expenditure on education issued in recent months by several development agencies.

2. In March 2009, the Education Sector of UNESCO launched a quick survey in order to assess the impact of the crisis on public expenditure on education in Member States. This report, dated June 2009, presents the findings and salient points of this survey based on the questionnaires filled by the Field Offices in fifty-one countries; some other information sources were used to complement the country responses to the survey.

3. **Impact of the crisis on Gross Domestic Product (GDP) growth** is still a matter of uncertainty, as economic forecasts published by major economic agencies, including the International Monetary Fund (IMF), the World Bank (WB) and the Organisation for Economic Co-operation and Development (OECD), are subject to periodic revisions. At the time of writing (June 2009), according to the IMF, world GDP is expected to contract for the first time since World War II by 1.3% in 2009. Developed countries are expected to fare much worse than developing countries, as a contraction of GDP of about 3.8% in 2009 is now expected in advanced economies.

4. The current crisis is expected to have strong disruptive effects in developing countries:

- In **Africa**, economic growth is expected to decline from 5.1% in 2008 to 2% in 2009. This stands in sharp contrast with the period 2000-2008 when African economies experienced faster and steadier economic growth (an average of 5.3% for the continent as a whole) than during previous decades. Among the fourteen sub-Saharan African respondent countries, only two (Guinea and Kenya) witnessed a decline in their GDP between 2007 and 2008, as against five expected between 2008 and 2009. In five countries out of fourteen, the expected GDP will be lower in 2009 than in 2007 in US\$ terms. Overall, GDP growth during the period 2007-2009 is expected to be both more uneven and subject to significant differences in performance among countries.
- In **Asia and the Pacific**, the big emerging economies of China and India will still experience positive growth, between 5 and 7% in 2009, far from the record growth rates registered when the crisis broke out. Among the seventeen respondent countries, only one (Kazakhstan) experienced a decline in GDP between 2007 and 2008, as against eight expected between 2008 and 2009. GDP will be lower in 2009 than in 2007 in five countries.
- In the **Arab States region**, economic growth will decline significantly from 5.5% in 2008 to 3.3% in 2009. Among the eight economies surveyed, four will face declining growth rates. Large oil producers will be directly affected by the reduction in oil prices and an economic slowdown is expected to have a direct impact on non-oil exporting countries with whom they have strong links.
- In **Latin America and the Caribbean region**, after six years of high growth (about 5% per year) thanks to the boom created by high commodity prices, GDP growth is now expected to contract by 0.3%, as the leading economies of the region are contracting (Chile, Mexico) or stagnating (Brazil). In 2009 the GDP of Mexico will be lower than in 2007.

5. **Context and propagation of the crisis.** In contrast with the structural adjustment crisis of the 1980s, the current crisis broke after a period of eight years of robust economic growth during which many developing countries posted significant advances in growth and reduction

of poverty. The current crisis, originally confined to developed countries where it originated, will be felt in developing countries through declining growth rates in 40 countries out of the 51 surveyed, or actual GDP contraction in 11 countries in 2009.

6. The impact of the crisis is expected to propagate through various channels: falling Foreign Direct Investment (FDI), lower commodity prices, declining remittances and lower ODA flows, adverse effects on government finance and household incomes through declining business activity and higher unemployment. Work is ongoing in several international agencies, research groups and non-governmental organizations (NGOs) to assess the expected impact of the crisis at country level taking into account their exposure to these channels.

7. Lessons from the past show that the impact of the crises differed depending on the development context. The negative effects were particularly strong in poorer countries and households along with (i) decreasing public finance for education resulting in worsening learning and teaching conditions in public schools; (ii) increasing private enrolment as affluent families escaped low-quality public schools; (iii) budget cuts in educational spending were stronger at primary and other subsector levels related to Education For All (EFA) than at higher education levels.

8. **Governments' responses.** The current crisis is more "global", that is affecting all economies, albeit to a varying degree, than previous crises. So far, the consensus among the international community is that restoring aggregate demand through a mix of budget deficits and increased Official Development Assistance (ODA) is an appropriate way to restore confidence and ride out the crisis. In recent months, developed countries, followed by several middle-income, emerging countries have been leading the way by taking bold initiatives in this area, whilst low-income economies lack the necessary fiscal space to do so, unless supported by the international community. In sharp contrast with past crises, budgetary orthodoxy is no longer a prime objective of economic policies for the time being. Investment programmes in infrastructure are emerging here and there to boost demand, thus providing a more favourable background for the preservation of the provision of public services and, therefore, of education budgets.

9. **Are education budgets "protected"?** Overall, the Survey has identified about nine "low-performers", that is countries likely to experience a decline in their public education budgets, measured in US\$ terms, over the 2008-2009 period, according to the data raised by mid-2009: three in sub-Saharan Africa, three in Asia and the Pacific, one in the Arab States region and two in Latin America and the Caribbean region. In five respondent countries, public education budgets in 2009 are expected to be lower than in 2007. A more precise picture of the situation will emerge as one gets closer to the end of the calendar/fiscal year and more countries are in a position to provide real expenditure data for 2009. Regionally, the situation can be described as follows:

- **In sub-Saharan Africa,** the data collected in the Quick Survey do not suggest any across-the-board, decisive cuts in public education expenditure for the time being, as a percentage of GDP or of domestic revenue, but it may be just a question of time before the economic slowdown is felt in education. Among the eleven respondent countries, public education expenditure, measured in US\$ terms, will actually decline in three countries (Cameroon, Congo and Sudan) in 2009 as compared with 2008 and it will be lower in 2009 than in 2007 in one country (Kenya).
- **Asia and the Pacific.** Overall, public education expenditure has resisted the effects of the crisis both in terms of its share in GDP and government finance, with the exception of Pakistan and Samoa. In some cases (e.g. Mongolia, Singapore) governments are calling for maintaining or even increasing educational spending.

Among the eight respondent countries for which data are available, public education expenditure, measured in US\$ terms, is expected to decrease over the period 2007-2009 in only two countries (Kyrgyzstan and Pakistan).

- **Arab States region.** Incomplete data from many respondent countries do not allow for an accurate, meaningful assessment of the impact of the crisis on public education spending in the region. However, on the basis of respondent countries, the overall picture is mixed. Yemen, Lebanon and Egypt are expecting increases in public expenditure on education, measured in US\$ terms. Cuts in public expenditure on education are expected in Sudan.
- **Latin America and the Caribbean.** In the ten countries surveyed, the data show that public spending on education as a percentage of GDP and of domestic revenue will remain stable or even increase in 2007-2009, except in Saint Vincent. However, among the eight respondent countries, public education expenditure, measured in US\$, will decline in two countries out of eight (Mexico and St Vincent) during 2008-2009 and it will be lower in 2009 than in 2007 in Mexico.

10. In several countries, massive infrastructure programmes covering the education sector are contemplated and supported by multilateral donors. The prospects for maintaining capital expenditure at present levels are, therefore, rather encouraging.

11. **Prospects for ODA:** At present, the perspective of rising ODA flows to offset the adverse consequences of the crisis for growth and government revenue in developing countries is encouraged by the increasing awareness of the international community about the role of social sectors in economic recovery.

12. The resources of the IMF have recently been considerably enlarged by the G20 and a possible change in its “doctrine” may pave the way for more spending on infrastructure and social sectors, including education. The World Bank is proposing to establish a Vulnerability Financing Facility (VFF) « *to streamline its support to protect the poor and vulnerable during global economic shocks* » and regional development banks are expected to follow suit.

13. The prospects for **bilateral ODA** are less encouraging, as it is likely to be strongly affected by donors' budgetary situations. Overall, donors will be less likely to meet their aid commitments. Even if they maintain their commitments, the potential loss of ODA due to the crisis amounts to billions. Some countries have declared that they will maintain or even increase aid levels, but others have already taken steps in the opposite direction.

14. **Expected trends in country programmable aid (CPA) for education.** Based on OECD-DAC assumptions, aid to country education is expected to increase by around 30% from 2007 (6.3 billion) to 2010 (8.3 billion) and to double from 2007 to 2015 in 2007 US\$ prices.

15. **Prioritizing aid flows: The case for sub-Saharan Africa (SSA).** A good case could be made to redistribute ODA in favour of SSA on three grounds, (i) most countries in the region are heavily dependent on ODA for investment in infrastructure, (ii) despite tremendous progress made so far, many countries in the region are still far away from achieving the EFA goals by 2015, and (iii) their efforts towards achieving EFA goals in 2015 are disrupted by the adverse effects of the crisis on their economies.

16. According to the various scenarios appraised in this report on the basis of the data provided by OECD, one may conclude that:

- The past trends of aid to education (Base Scenario), even taking into consideration donors' announced aid commitments, are not sufficient.

- The 2007 level of aid is not desirable (Pessimistic Scenario) and if donors do not deliver on their Gleneagles commitment, the situation will be catastrophic.
- The desirable option is for DAC members to deliver on the UN aid target of 0.7% of GNI (Optimistic Scenario) and to increase the share of their aid to Africa.

17. **Preliminary conclusions:** Beyond the usual and legitimate questioning of the data collected by the Quick Survey and the need to improve them, five lessons appear indisputable:

- This crisis is different from earlier ones because it originated in advanced economies.
- Its impact is not yet fully reflected in education finance statistics.
- To ride out the crisis, increased budget deficits are “favoured” at the expense of budgetary orthodoxy, thus providing a more positive background for the preservation of education budgets than in the past.
- Low-income countries, numerous in sub-Saharan Africa, cannot afford additional public deficits and should, therefore, be given preferential access to increased ODA.
- There is a need to reconfirm the willingness of the international community to live up to its commitments towards increased ODA, especially among bilateral donors.

18. At the time of writing, education budgets are being affected by the current crisis albeit to varying degrees. In several countries, education expenditure for 2009, measured in US\$, is expected to decline compared to 2008. In other countries, although education budgets appear resilient, the increase in 2009 will be much weaker than in previous years. Since the 2009 budget information given in surveys are often projected estimates, the actual expenditure to be recorded at the close of the fiscal year can end up with much lower figures than reported. In countries where school enrolments are rapidly rising, the negative or marginal growth of education expenditure will actually mean reduction of per-pupil unit costs, cuts in school running costs and a further deterioration of quality in education.

19. Policy responses should pay particular attention to increasing targeted support. In crisis times, social transfers contemplated in several countries need further elaboration towards social protection for maintaining access, participation and achievement of students at risk.

20. Up to now, there is no clear sign that education budgets are being cut more than in other sectors. This is demonstrated by the share of education expenditure in government finance that is being kept constant or even increased in many countries surveyed (i.e. in 16 countries out of 25 for which data were available). Stimulus packages, including increased social transfers in education, are being announced not only in developed countries, but also in many middle-income countries. In some countries surveyed, especially middle-income economies, education is increasingly seen as part of long-term investment designed to sustain labour demand and restore economic growth. However, low-income economies lack the necessary fiscal capacity to afford or increase social programmes, therefore support by the international community is urgently needed.

21. UNESCO will continue monitoring the effects of the financial and economic crisis on education provision and social demand for education in Member States, including how education expenditures are being reallocated across education levels, and whether enrolment in and quality in education are being impacted. Ongoing dialogues with Ministries of Education in Member States, through field offices, will contribute to build the knowledge base on the impact of the crisis on education and on policy responses. The result of these monitoring activities will contribute to adjust the Organization’s support at country level in terms of policy advice and capacity development.

Introduction

1. The current financial and economic crisis is expected to have a major negative impact on education in developing countries. It is too early to assess its magnitude, however various warnings about the effects of the crisis on public spending on education have been issued in recent months by several development agencies, including the OECD, the WB and the IMF. Non-governmental organizations (NGOs), notably the Global Campaign for Education and Education International, have been voicing their concern. UNESCO has also taken an active part in the brainstorming efforts of the international community to assess the impact of the crisis.

2. In March 2009, the Education Sector of UNESCO launched a “Quick Survey” aimed at assessing the impact of the crisis on public expenditure on education in Member States. The present report presents the preliminary findings of this survey, based on the questionnaires filled by its Field Offices in fifty-one countries (See the full list of respondents in Annex 1). These findings will be subject to change as more countries' responses yielding accurate data and fresh evidence are collected by UNESCO offices in the field and reviewed by Headquarters. Some other information sources were used to complement the country responses to the survey, especially to verify the validity of information on macro-economic outlooks and the ODA flows.

3. The report is comprised of four sections. Section One of the report examines the impact of the global financial crisis on economic growth and government finance on the basis of data available in the field up to June 2009, keeping in mind that the knowledge of the situation and the forecasts are periodically reviewed to take into account new developments.

4. Current and expected changes in public expenditure on education are reviewed in Section Two which attempts to answer the question of whether or not education budgets are being “protected” from the adverse effects of the crisis. Because it originated in developed countries, the current crisis is widely expected to exert downward pressure on ODA flows. What can be said about ODA trends and prospects, both global and for education, especially in Africa, is examined in section Three. This section also reviews the pledges made by the international community to sustain governments' commitment to EFA goals and advocates a few urgent steps to be taken, especially in the most EFA-challenged countries, during the crisis. Section Four carries a few concluding remarks and further steps to be taken by UNESCO.

5. The present report focuses on **public education expenditure only**, although the current crisis is also going to have adverse effects on the ability of households to finance the schooling costs of children enrolled in private schools or the direct expenses for children enrolled in public schools (e.g. fees that often cover an important share of school running costs in many countries). It is premature at this stage to collect data on the effects of the crisis on household income, as well as the increasing or decreasing opportunity costs depending on countries or education levels, which may affect social demand for education during and beyond the crisis. However, some remarks drawn from the experience of past crises are made when appropriate.

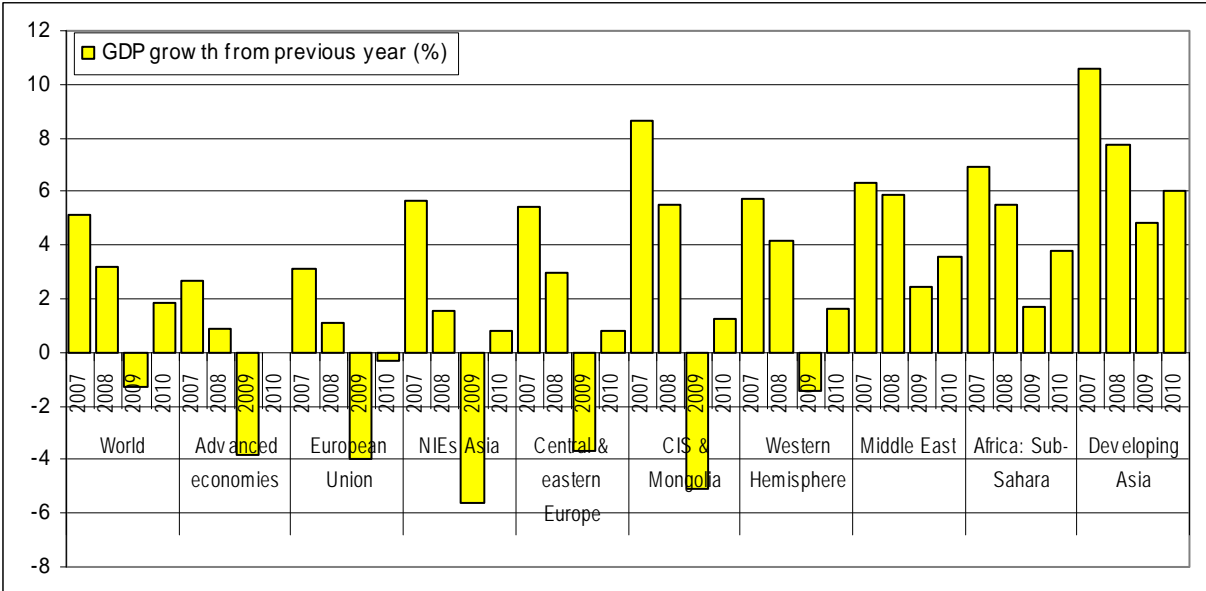
6. The present report is expected to provide UNESCO governing bodies and other partners with an updated empirical basis about the possible impact of the crisis on national education budgets and external support in Member States, thus contributing to identify appropriate policy responses. It should be kept in mind that the 2009 data mentioned throughout the report are subject to revision, both by national authorities and the international community.

1. The impact of the global crisis on economic growth and government finance

1.1 Assessing the magnitude and impact of the current crisis

7. The magnitude of the current crisis that developed throughout 2008 is still a matter of considerable uncertainty, as economic forecasts published by major economic agencies, the IMF, the World Bank and OECD, are subject to periodic revisions. At the time of writing (June 2009), world Gross Domestic Product (GDP) growth is expected to be negative (-1.3%) for the first time since World War II. Developed countries are expected to fare worse than developing countries, as a contraction of GDP of about 3.8% is expected in advanced economies (a situation unheard of since the 1929 crisis), while growth rates in most developing countries will decline sharply (Graph 1).

Graph 1: Annual GDP growth (annual % change)



Source: IMF World Economic Outlook Database, April 2009

Impact of the crisis on economic growth by region

8. According to the United Nations Economic Commission for Africa (ECA), economic growth for **Africa** is expected to decline from 5.1% in 2008 to 2% in 2009, subject to further revisions throughout the year. Economic performance, still positive overall, may be negative in the countries most severely hit by the crisis. Until 2008, African countries had been experiencing -- for the first time in two decades -- sustained economic growth equal to that of all developing countries (outside China and India). Thanks to sound economic policies and rising commodity prices in many countries, Africa's growth had been accelerating from 5.7% in 2006 to 6.1% in 2007 and a projected 6.4% in 2008. However, the impact of the global economic crisis has not spared the region and is expected to slash the growth rates to 2% in 2009, less than half of the average growth rate achieved during the past five years. While 2% growth is higher than the zero or negative growth being forecast for the United States or Europe, a two- to three-percentage-point drop in growth could have devastating consequences for low-income countries. According to an IMF study, over the last 30 years a

1% slowdown in the rest of the world has led to a fall of 0.5% in sub-Saharan Africa. The steady process of integration of the continent into the global economy that occurred during the last 15 years has increased the vulnerability of Africa to drastic falls in financial flows, such as foreign direct investment, trade credit and remittances and to reductions in export earnings.

9. In **Asia and the Pacific region (APA)**, most countries were tackling rising inflation from the surge in food and fuel prices in early 2008. Since the outbreak of the financial crisis in September 2008, all middle-income countries of the region were confronted by the acceleration of the financial turbulence. With the financial crisis evolving into an economic slowdown, all Asian economies, including the low-income countries, have been deeply affected. The decline in wealth, confidence, and credit availability in the advanced economies has led to lower consumption, production, and investment. Therefore, the region's dependence on exports is likely to further increase its vulnerability to the uncertainty of the economic recovery in the industrialized countries. The low-income countries are expected to be the worst affected by the crisis, given their small domestic markets, over-reliance on commodity exports and shrinking remittances. The big emerging economies of China and India will still experience positive growth, between 5 and 7%, but the newly industrialized economies are expected to contract by around 4%. According to the Asian Development Bank (ADB), real GDP growth in developing East Asia is projected to slow to 5.3% this year from 8% in 2008. Growth in South Asia decelerated from 8% in 2007 to 6% in 2008. It is projected to further decline to 5% in 2009, before recovering to 6% in 2010.

10. In the **Arab States region (ARB)**, countries experienced a rapid increase in their economic fortunes in 2008. At the same time, they had to cope with rapidly rising food and raw material prices. By July 2008, the effects of the financial crisis and expectations of much lower global growth caused a collapse in oil prices. As a result, Arab oil exporters experienced a fall in hydrocarbon receipts, deterioration in their terms of trade, and declining surpluses on their balance of payments. The IMF warns that a protracted period of global economic turmoil could prompt oil exporters to reassess their long-term oil price expectations and thus curtail infrastructure spending plans and investment in oil production. This would have negative effects on the economy of the entire region because the demand for Arab workers in the oil-rich states would fall with subsequent effect on their remittances. Inter-Arab tourism revenues would decline, resulting in less investment by the richer Arab states in the poorer ones. Broadly speaking, the Arab countries will experience slower economic growth (economic growth declining from 5.5% in 2008 to 3.3% in 2009 according to the World Bank estimates), weaker balances of payments, and higher unemployment in 2009. According to most forecasts, the slowdown in economic growth is expected to last at least a year. Greater socio-economic and even political pressures in the region can therefore be expected, contributing to instability and increasing poverty in many Arab states especially those with a large number of people living above but close to the poverty line (Egypt, Morocco, and Yemen).

11. In the **Latin America and the Caribbean region (LAC)**, after six years of high growth (about 5% per year), GDP growth, which was expected to decline to less than 2% in 2009 according to forecasts made at the beginning of the year, is now expected to contract by 0.3% according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC – CEPAL), as the leading economies of the region are contracting (Chile, Mexico) or stagnating (Brazil). However, it is interesting to note that the present crisis is not expected to affect Latin America's economies to the same disastrous extent as the financial crisis of the 1990s did. Nowadays, LAC's economic systems are stronger with low inflation, solid bank systems, external and fiscal surplus being generated¹. This relatively favourable

¹ *Los dilemas de la política económica en tiempos sin precedente. Como enfrentar la crisis global en America Latina y el Caribe*, Alejandro Izquierdo, Ernesto Talvi, IDB, 2009.

environment allows Latin American countries to go for countercyclical measures aimed to protect their economies and labour markets.

Context and propagation of the crisis

12. Globally, in sharp contrast with the structural adjustment crisis of the eighties, the current crisis broke after a period of eight years of robust economic growth during which many developing countries were able to post significant advances in terms of growth and reduction of poverty. As mentioned earlier, over the 2000-2008 period, African economies had experienced faster and steadier economic growth (an average of 5.3% for the continent as a whole) than during the previous decades. The boom created by high commodity prices in Latin American economies was entering its ninth year. Throughout Asia, record growth rates were registered in most emerging countries when the crisis broke out.

13. In 2007, the developing world benefited from a fairly positive financial environment that had been building up over recent years, as witnessed by (i) steady and increasing flows of foreign direct investment (FDI), reaching 300 billion in 2007², (ii) a vigorous rise in remittances, reaching 250 billion world wide in 2007 according to the World Bank estimates, and (iii) an upward trend in official development aid (ODA) that reached the 100 billion US dollars mark in 2007, which is an increase of almost 50% over five years, according to OECD/DAC (Development Assistance Committee) estimates.

14. All observers agree that the current crisis which did not originate in the trade or fiscal imbalances of developing countries as in the structural adjustment crisis of the 1980s, but in the collapse of the financial systems of developed countries, is likely to disrupt this highly favourable environment². The question is to what extent and for how long. At this stage, the length of the current economic downturn is still largely unknown. According to some observers, some signs of economic recovery by the beginning of 2010 are noticeable in developed countries. According to others, their financial systems have not yet been sufficiently cleaned from toxic assets to ensure stable recovery and commodity prices -- with the possible exception of oil -- are believed to be on a long-term downward trend that will negatively affect developing countries for the years to come.

15. Furthermore, not all developing countries will be hit to the same extent. The issue of the heterogeneity of the impact of the crisis will be a matter of considerable debate among the international community.

16. In the meantime, the collapse of financial markets caused an immediate loss of confidence, bringing capital flows to an abrupt stop, while commodity prices were declining sharply as a result of falling aggregate demand and shrinking global trade. Middle-income countries in Central and Eastern Europe and East Asia were the first to be hit because of their dependence on such flows and access to developing countries markets for their exports. According to a World Bank paper³ prepared for the G20 Finance Ministers' Meeting in March 2009, most middle-income countries, including the major ones (India, Brazil, Indonesia, the Philippines and Turkey) registered sharp declines in their exports in 2008 and there are signs that the downward trend is continuing in 2009.

² *The global financial crisis: financial flows to developing countries set to fall by one quarter*, M. Cali, I. Massa, W. te Velde, ODI, 13 November 2008

³ *Swimming Against the Tide: How Developing Countries Are Coping with the Global crisis*, Background Paper by World Bank staff for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom, March 13-14, 2009

17. The impact of the crisis on low-income countries (LIC) will be felt through various propagation channels⁴ such as:

- falling Foreign Direct Investment (FDI): The blow will be particularly severe for sub-Saharan Africa because capital flows to this part of the world increased considerably between 2002 and 2007;
- declining commodity prices: It will harm countries which rely heavily on exports of non-oil commodities, although oil-importing countries may benefit from lower prices. On the whole the balance is expected to be negative;
- lower government revenue as a result of heavy reliance on trade taxes;
- shrinking remittances: Declining activity in advanced countries mean lower remittances which are a major source of foreign exchange and of household support for the poor in LIC;
- diminishing ODA flows to the extent that aid initiatives and disbursements are correlated with activity level in donor countries.

18. In an attempt to analyse the mechanisms that play a key role in spreading the consequences of the crisis to the developing world, namely remittances, capital flows and trade, a recent UNDP paper came to the conclusion that (i) remittances will decline in 2009 (between -1% and -6%), and even more steeply if the recession deepens, (ii) FDI flows to Latin America and Africa already declined by 10% in 2008 and that a further decline in 2009 should be expected, and (iii) trade will be affected through negative export growth as both volumes and prices for commodities are showing a downward tendency⁵.

19. The overall impact of the crisis in each LIC is impossible to ascertain at this stage. But one may postulate that the hardest hit countries will be those which have enjoyed a high level of FDI in recent years, developed a strong export-driven agriculture and relied on a high share of remittances in GDP. By contrast, countries with limited access to private capital flows and relying on domestic agriculture will be temporarily shielded from the direct impact of the crisis, but their dependence on ODA and concessional borrowing will increase.

20. In early 2009, the UNDP tried to assess the impact of the crisis through a survey carried out by its country offices. According to the Consolidated Reply⁶, based on responses by 46 UNDP country offices, the impact on employment in some key sectors, such as tourism, garments/textiles and construction is already visible in a number of countries. Furthermore, this report states that *“in virtually all countries fiscal revenues have declined or are expected to decline due to slower growth and trade... and in all cases budgets are under pressure because of the greater need for economic stimuli and social assistance.”*

21. An ILO paper (2009)⁷ warns of a prolonged impact of the global crisis on the labour market: *“... after four years of consecutive declines, the number of unemployed increased in 2008 by 11 million. As the crisis continues to spread and job losses mount, worldwide unemployment could increase by an additional 40 million by the end of this year...”* According to ILO, export-oriented sectors, which in a number of developing countries are major providers of formal jobs, are likely to be affected by shrinking world markets and the incidence of informal employment and working poverty is expected to rise. *“Lessons from past financial crises show that the labour market tends to recover only four to five years after the economic recovery (which is not expected before the end of 2009). This is because*

⁴ *The Implications of the Global Financial Crisis for Low-Income Countries*, IMF, March 2009

⁵ *The financial crisis and its impact on developing countries*, S. Griffith-Jones and J. A. Ocampo, International Policy Centre for Inclusive Growth, UNDP, 2009

⁶ *Consolidated REPLY/Impact of the financial crisis and responses by developing countries*, UNDP, Poverty Reduction, March 2009

⁷ *The financial and economic crisis: A Decent Work response*, ILO discussion paper, March 2009.

massive rises in long-term unemployment ...– exacerbated by return migrants and large-scale reverse migration from urban to rural areas – are very difficult to reverse. If these trends take root, the negative effects of the crisis will be long-lasting, thus yielding significant social hardship and depriving the economy of valuable resources.”

1.2 Economic prospects as of June 2009: Findings from the Quick Survey

22. In this section, the findings of the Quick Survey regarding trends in GDP, domestic revenue, reliance on ODA are presented by region. The fifty countries covered by the Survey are categorized according to four main regions (AFR – Sub-Saharan Africa; APA – Asia and the Pacific; ARB – Arab States region; LAC – Latin America and the Caribbean).⁸ Furthermore, an attempt is made to ascertain the potential effects of the crisis according to their patterns of economic development.

23. Below are presented the main features of the economic outlook by region, as reported in country responses.⁹ For country information by region, please see Annex 2.

Sub-Saharan Africa

24. Among the fourteen sub-Saharan African countries which provided data on GDP in their responses to the Quick Survey, only two witnessed a decline in their GDP between 2007 and 2008, as against five expected between 2008 and 2009. In five countries out of fourteen, the expected GDP will be lower in 2009 than in 2007 (Table 1).

25. Overall, GDP growth in sub-Saharan countries during the period 2007-2009 is expected to be both more uneven and subject to significant differences in performance among countries, a situation that stands in sharp contrast with the remarkable overall performance of SSA over the past decade. Individual countries are affected in different ways, depending on their degree of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions.

26. In 2007 and 2008, GDP growth was particularly strong in net oil-exporting countries (around 6.7% on average) due to the increase in oil prices and increases in production in a number of countries, along with increased public and private investment. However, 2009 GDP growth is projected to be markedly lower in both net oil-exporting and net oil-importing countries and the impact of the global crisis is likely to be felt more strongly in the oil-exporting countries (and mineral exporters) than in more diversified economies and in those exporting certain agricultural commodities such as beverages. It is expected that the net oil importers' GDP will grow at 3.3% in 2009 compared to 2.4% for the net oil exporters. So far the diversified economies seem more resilient to the financial and economic crisis than the other countries.

⁸ As for Europe and North America region (EUR), there was only Armenia that responded to the survey, therefore this region is not discussed in this report, except for Armenia in Annex 6.

⁹ Data on economic growth reported in country responses to the survey have been checked to the extent possible with IMF database and have been replaced with IMF's if they were very different from the latter. However, when there was no much difference between country-provided and IMF data, the former are used in this report. Data on government finance are in most cases those reported in country responses to the survey.

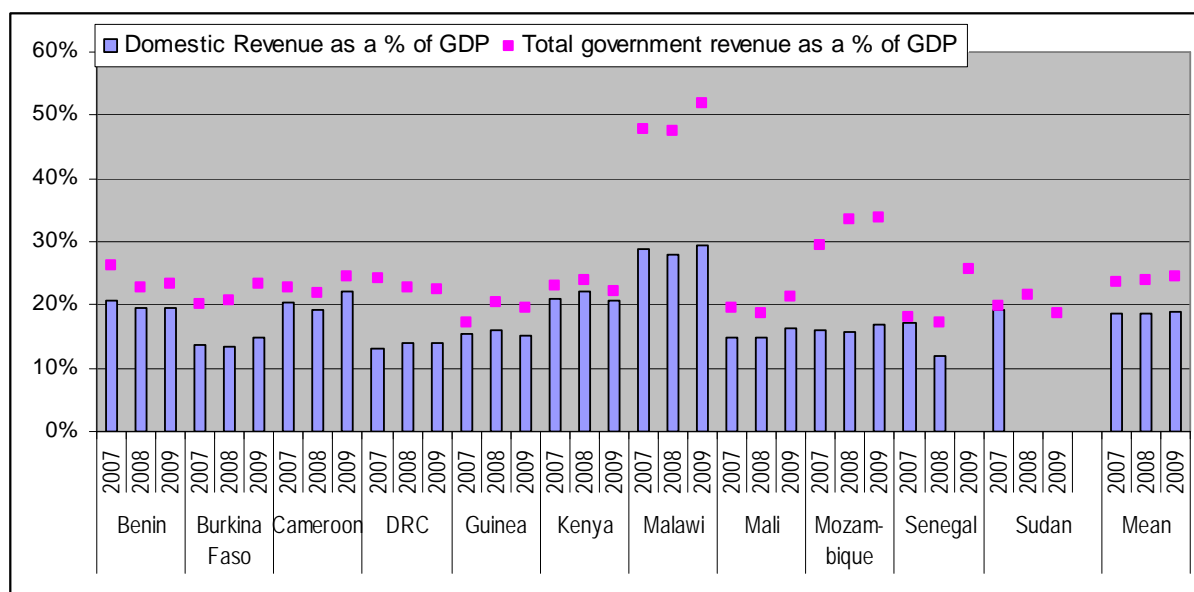
Table 1: Trends in Gross Domestic Product (in US\$ billion)

Country	GDP, US\$ Billion			'+' increase; '-' decrease		
	2007	2008	2009	2007-2008	2007-2009	2008-2009
Benin	5.6	6.9	7.5	+	+	+
Botswana	12.2	13.9	9.7	+	-	-
Burkina Faso	6.8	8.1	8.1	+	+	+
Cameroon	20.6	23.6	21.3	+	+	-
Congo, Democratic Republic of	9.0	9.5	10.0	+	+	+
Congo, Republic of	7.6	10.7	7.6	+	-	-
Ghana	15.0	16.1	16.1	+	+	-
Guinea	4.6	4.0	4.2	-	-	+
Kenya	32.8	29.7	32.5	-	-	+
Malawi	2.4	2.6	2.7	+	+	+
Mali	6.7	7.2	7.7	+	+	+
Mozambique	8.0	9.7	10.1	+	+	+
Senegal	11.2	12.9	14.0	+	+	+
Sudan	46.3	49.5	43.0	+	-	-
Count	14	14	14	12	9	9

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

27. Domestic revenues represent less than 20% of GDP in most countries (Graph 2). In sub-Saharan African countries, there is a relatively big difference between total government finance and domestic revenue, suggesting that they are largely dependent on ODA in the form of loans and grants. Such differences are appreciable in countries like Burkina Faso, the Democratic Republic of Congo (DRC), Malawi and Senegal. The share of domestic revenue in total government resources was 79.2% in 2007, 77.9% in 2008 and is expected to be 77.5% in 2009 in the nine countries represented in Graph 2, indicating the increasing aid dependency in these countries.

Graph 2: Domestic revenue and Government finance as % of GDP, Sub-Saharan Africa, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

Note: The nine countries taken in the mean are: Benin, Burkina Faso, Cameroon, DRC, Guinea, Kenya, Malawi, Mali and Mozambique.

Asia and the Pacific

28. Overall, GDP growth is slowing down in all the seventeen economies of this region covered by the Survey. In 2007-2008, GDP increased in all of them but one, but only in eight of them in 2008-2009. GDP is expected to decline in nine countries. In five countries GDP will be lower in 2009 than in 2007. Contrasting situations can be observed among major countries: India will keep growing in 2009, while Pakistan and Thailand expect contraction of their GDP (Table 2).

29. Economic growth is slowing down in most countries. Middle- and high- income countries (e.g. Singapore, Kazakhstan, Thailand, etc.) will be hit hardest, as a result of their direct exposure to international trade and financial flows, while low-income countries seem relatively more resilient to the financial turmoil as their local financial markets experience only limited integration with global financial markets. On the other hand these low-income countries' economic structures expose them to the likely second-round effects of the financial crisis, because their economies rely heavily on exports of often limited number of commodities, remittances and tourism. Low prices of commodities, decline in remittances and reduced earnings from tourism might lead to increased unemployment or underemployment, increasing vulnerability of the poor and reduced national income.

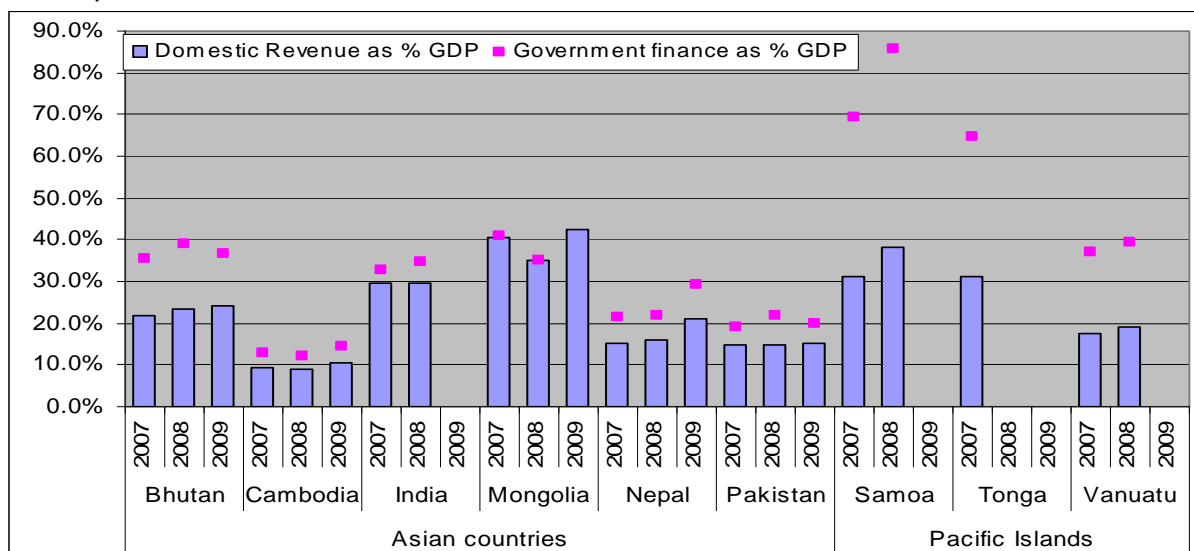
Table 2: Trends in Gross Domestic Product (in US\$ billion)

Country	GDP, US\$ Billion			'+' increase; '-' decrease		
	2007	2008	2009	2007-2008	2007-2009	2008-2009
Bhutan	1.1	1.3	1.4	+	+	+
Cambodia	8.8	11.0	11.8	+	+	+
India	834.6	1,073.8	1,185.7	+	+	+
Kazakhstan	108.5	102.4	101.9	-	-	-
Kiribati	0.13	0.14	0.11	+	-	-
Kyrgyzstan	2.9	2.9	2.5	+	-	-
Lao PDR	4.1	5.2	5.9	+	+	+
Mongolia	3.9	5.2	4.8	+	+	-
Nepal	10.4	11.3	10.2	+	-	-
Pakistan	143.9	170.2	158.2	+	+	-
Samoa	0.4	0.4	0.5	+	+	+
Singapore	189.0	193.0	180.0	+	-	-
Sri Lanka	32.3	38.7	39.6	+	+	+
Thailand	245.5	281.6	280.3	+	+	-
Tonga	0.246	0.258	0.259	+	+	-
Vanuatu	0.51	0.57	0.55	+	+	-
Vietnam	71.5	89.9	90.5	+	+	+
<i>Total</i>	<i>1,657.7</i>	<i>1,987.8</i>	<i>2,074.2</i>	<i>+</i>	<i>+</i>	<i>+</i>
<i>Count</i>	<i>17</i>	<i>17</i>	<i>17</i>	<i>16</i>	<i>12</i>	<i>8</i>

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

30. Middle-income countries in the region try to cushion the impact of the crisis on the most vulnerable portions of population by maintaining and, in some cases, expanding the existing social transfers and "safety net" programmes, including school feeding and targeted support, in order to relieve poor families from increasing household burdens for schooling their children. Low-income countries will face greater challenges in helping the poor due to limited fiscal space, unless supported by external aid.

Graph 3: Domestic revenue and Government finance as % of GDP, Asia and the Pacific, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

31. Domestic revenue as a percentage of GDP varies a great deal across the region from around 10% in Cambodia to 40% in Mongolia (Graph 3).

32. The above graph indicates that most of the countries in the region are highly dependant on external support to complement their domestic revenue, such as loans and grants from outside, as non-domestic resources represent more than 30% of total government finance. The difference between domestic revenue and Government finance is particularly high in low-income countries (e.g. Bhutan, Cambodia, Nepal and Pakistan) and in the Pacific islands. Reduced financial aid (from high-income countries, hardest hit by the financial crisis) will have a devastating effect on government finance in the least developed countries.

Arab States region

33. The Quick Survey yielded data on eight Arab states. The region can be categorized in the four groups often used by development agencies to assess economic performance in these countries:

- Gulf Cooperation Council (GCC) countries that are oil exporters with small populations: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates.
- Oil-exporting countries with large populations relative to their oil wealth: Algeria, Iraq, Iran, Libya, Sudan and Syria.
- Non-oil-exporting countries with strong linkages with GCC: Jordan, Lebanon, Yemen and Palestine.
- Diversified economies with strong linkages with EU and OECD countries: Morocco, Tunisia and Egypt.

34. Table 3 gives the trends in GDP growth in countries of the region that responded to the survey. Despite the limited number of countries represented, the region as a whole can be said to have registered a relatively strong growth in 2007 and 2008 (with the notable exceptions of Iraq and the Palestinian Territories).

Table 3: Trends in GDP growth rate in Arab States region, 2007-2009

Country	GDP, US\$ billion			'+' increase; '-' decrease		
	2007	2008	2009	2007-2008	2007-2009	2008-2009
Egypt	414.1	442.6	473.0	+	+	+
Iraq	68.4	79.8	83.5	+	+	+
Jordan	16.0	19.0	20.0	+	+	+
Lebanon	24.6	28.9	31.3	+	+	+
Palestinian Territories	2.8	3.9	4.2	+	+	+
Qatar	71.0	102.3	99.7	+	+	-
Sudan	46.3	49.5	43.0	+	-	-
Yemen	53.6	55.3	55.7	+	+	+
Count	8	8	8	8	7	6

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

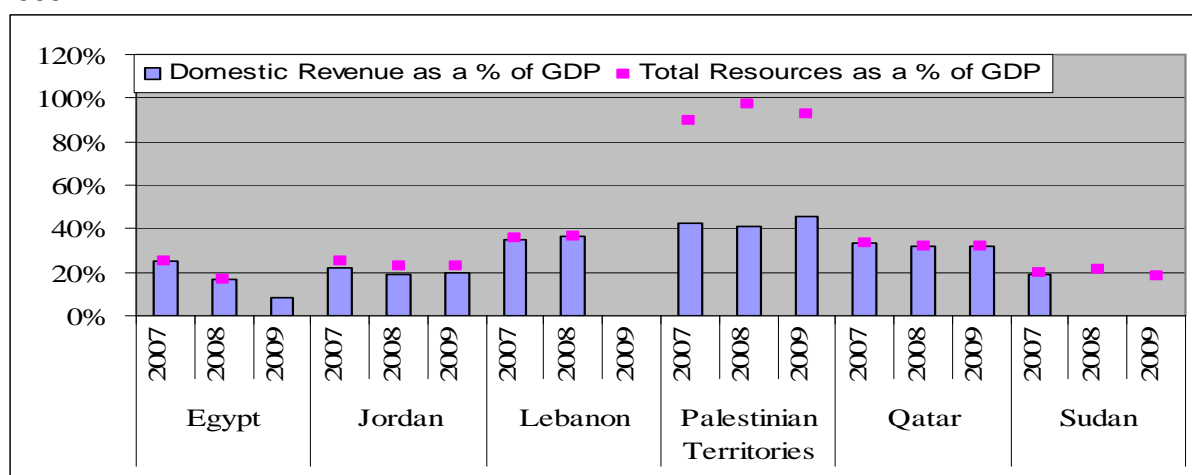
35. GCC countries are characterized by a great capacity to absorb the economic shocks because their financial position is exceptionally strong, cushioning them against the initial impact of the global financial crisis (e.g. Qatar). As oil prices began to decline in mid-2008, GCC countries predictably experienced a sharp decline in their revenues and, as a consequence, lower growth rates in 2009 than in the previous year. According to the U.S. government's Energy Information Agency, oil income for Arab members of the Organization of the Petroleum Exporting Countries (OPEC) will continue to fall, from \$678 billion in 2008 to \$268 billion in 2009. Saudi Arabia's export revenues are forecast to decline from \$285 billion to \$111 billion and Iraq's from \$59 billion to \$23 billion.¹⁰

36. While forecasts must be treated with caution, these estimates seem reasonable. They will have a direct impact on the economies of the larger oil producers. For example, the Saudi budget is expected to go into deficit — possibly as high as 11-12% of GDP — for the first time since 2002. Economic growth has decelerated from about 4% in 2008 to almost zero in 2009. In the United Arab Emirates, the large budget surplus recorded in 2008 will give way to a deficit in 2009. Economic growth has fallen sharply from nearly 8% in 2008 to under one percent. Currently, high government expenditures are filling the void left by the retrenchment of private sector activity in oil-producing states. This is the case, for example, in Kuwait, Libya, and Saudi Arabia.

37. On the whole, the impact of the crisis on GCC is not a cause for alarm, but an economic slowdown in GCC will have a direct impact on non-oil-exporting countries with strong linkages with GCC through layoffs of non-GCC nationals (e.g. Egypt, Jordan and Lebanon), declining remittances to non-GCC countries and ODA flows originating in GCC. In this part of the world, a trans-national labour market has been fast developing in recent decades and non-oil-producing economies are highly sensitive to economic downturn in oil-producing economies. Economies in non-oil exporting countries with strong linkages with GCC (e.g. Jordan, Lebanon, Yemen and the Palestinian Territories) will be affected through decreasing remittances, FDI and tourism from GCC countries as well as increased unemployment resulting from laid-off workers in GCC labour markets returning to their home countries.

¹⁰ "The impact of the global economic crisis on the Arab World" in The Quarterly Journal InFOCUS, Volume III, number 2, Paul Rivlin, Summer 2009.

Graph 4: Domestic revenue and Government finance as % of GDP, Arab region, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

38. Domestic revenue as percentage of GDP represents a range of 20-40% in the region. Except for the Palestinian Territories, most surveyed countries appear to be less dependent on external aid for their expenditure than the countries in other regions¹¹.

Latin America and the Caribbean

39. The Quick Survey yielded data for eleven countries which can be divided into two groups, namely a group which will experience negative GDP growth in 2009 (Mexico, Ecuador and Chile) and a second group where GDP growth rates will slow down significantly (Costa Rica, Dominican Republic, Haiti, Honduras, Nicaragua, Salvador and Saint Vincent). In 2009 the GDP of Mexico will be lower than in 2007.

Table 4: Trends in Gross Domestic Product (in US\$ billion)

Country	GDP, US\$ Billion			'+' increase; '-' decrease		
	2007	2008	2009	2007-2008	2007-2009	2008-2009
Mexico	901,48	1 176,89	853,63	+	-	-
Ecuador	45,79	52,57	51,11	+	+	-
Chile	202,70	234,40	233,40	+	+	-
St. Vincent	0,55	0,60	0,62	+	+	+
Haiti	11,33	11,59	11,82	+	+	+
Nicaragua	5,69	6,35	6,55	+	+	+
Dominican Republic	38,52	44,29	45,02	+	+	+
Costa Rica	26,27	28,30	30,18	+	+	+
Honduras	12,40	14,30	16,50	+	+	+
Count	10	10	10	10	9	7

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

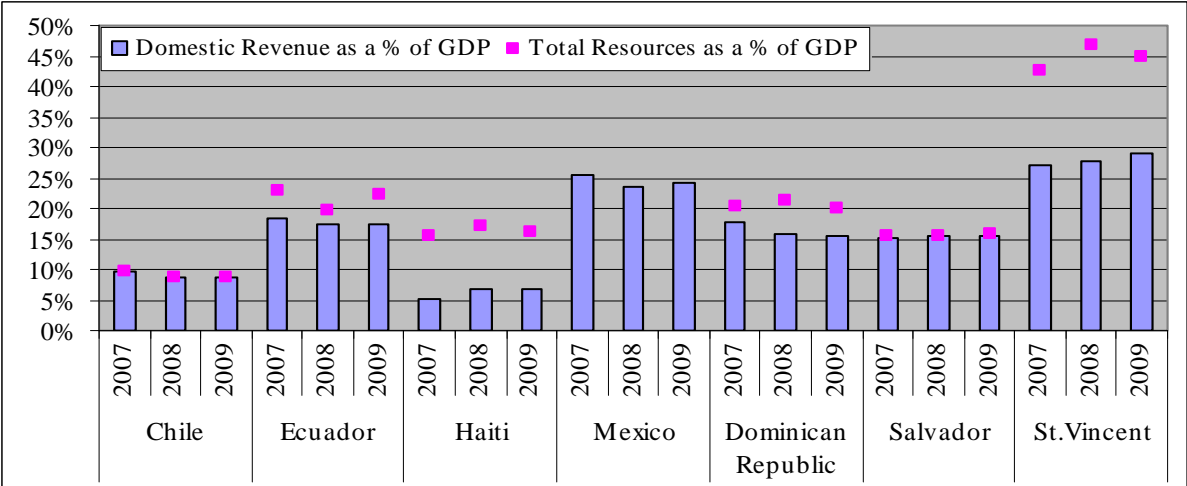
¹¹ Need for further check for Egypt. Again, the data used in this report are taken in most cases from the Survey. While continuing the verification of the reported data, some data used in this report will have to be taken with caution.

40. There is no doubt the financial crisis is severely hitting the middle-income countries of this region where economies are in majority open market economies, exposed to capital flows and highly sensitive to commodity prices. The crisis is reported to have impacted the economies of the LAC region from the second semester of 2008 with more visible consequences in 2009. The contraction in GDP in the leading economies (Mexico, Chile) of the region, together with stagnation in Brazil, is expected to lead to economic stagnation in the region as a whole in 2009.

41. Most of the Latin American countries covered by the Survey are conscious of the need to restore aggregate demand by implementing vigorous counter-cyclical measures reflected in increased government spending. The overall objective is to reduce the adverse effect of the crisis on the level of employment. In doing so, their national responses are very similar to those of developed countries. This illustrates a radical difference with the crises of the past when, faced with diminished fiscal revenue as a result of slow growth and budget deficits, most governments opted for a reduction of social support programmes and the size of the State, often by laying off civil servants, and for a reliance on private sector stimulus packages. Presently, the public sector is expected to play a central role in the policy responses to the crisis, venturing countercyclical measures in the form of support to the public sector. The prognosis for the social sectors, education and health, is less grim than in the past as public spending is now seen as an effective defence against the financial crisis and a tool to avoid a massive social crisis. Long-term investments in education and capital spending (infrastructure) are considered as long-term policies for improving human capital and ensuring economic recovery.

42. To implement these policy responses, LAC countries require external financing. Most of them are borrowing from international financing agencies, such as the InterAmerican Development Bank (IADB) among others.

Graph 5: Domestic revenue and Government finance as % of GDP, Latin America and the Caribbean, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

43. The domestic revenue represents a relatively small share in GDP, at around 20-25% in most countries. Aid dependency seems high in most countries (Ecuador, Haiti, Dominican Republic and St Vincent), whilst it is nil or marginal in Chile.

1.3 Conclusions

44. Altogether, one may say at this stage that, in 2009, developing countries will be less affected by the current crisis than OECD countries. In contrast with the OECD area where actual contraction of GDP is a general rule (-4.3 in 2009 and -0.10% in 2010 according to the latest estimates of OECD), this is foreseen only in a limited number of developing countries and seldom in the major ones, except in Latin America. To be sure, GDP growth rates are declining everywhere through the developing world, but often from high levels.

45. Regionally, prospects for prompt recovery are also more clearly visible in the major economies of Asia (China, India, Indonesia, and the Philippines) than in LAC (Brazil, Chile and Mexico). Recent recovery in oil prices may also suggest that the damage to oil-producing and exporting economies and in those economies of Middle East and North Africa with strong linkages with GCC (Gulf Cooperation Council) may be short-lived. Sub-Saharan Africa (SSA) is the region where the impact on growth and social services could be strongest, in light of historical evidence of past crises. Despite recent progress, many SSA economies are still fragile and highly sensitive to external disruption. Most countries in this region are heavily dependent on external aid, particularly ODA, for achieving progress in the public provision of key social services, including education. Aid-dependency in public finance is around 20 to 30% in most low-income countries that responded to UNESCO survey.

46. The shortfall in government finance as a result of the crisis is difficult to assess with accuracy. So far, it is expected that, although government revenue is adversely affected by the crisis everywhere, the tendency to respond to the new situation by restoring demand and increasing investment may avert negative effects on public expenditure in general and education expenditure in particular.

47. In this context, the role of ODA in continuing to implement ongoing activities and in preparing new investment programmes is crucial.

2. Prospects for national public expenditure on education

2.1 Education crises: Lessons from the past

48. As a result of the economic crisis that developed during the 1980s in much of the Third World, many countries were obliged to introduce severe austerity measures designed to overcome fiscal imbalances, decrease debt and control inflation. **Reducing government budget deficit became a prime objective of economic policies** and, in the absence of increase in government revenue, the reduction of public sector expenditure was one, if not the major, element of both short-run stabilization and longer-term structural adjustment.

49. These policies, which came to be known as structural adjustment policies, generated considerable controversy, as critics argued that they were likely to lead towards increased poverty and government demise in the provision of public services, among others education. The IMF and the World Bank were the most resolute advocates of these policies and developed new instruments designed to assist countries willing to undertake an adjustment programme. In 1986 the IMF introduced the Structural Adjustment Facility to help low-income countries to finance medium-term policy reform. Sectoral adjustment loans, distinct from project lending, were introduced by the World Bank in the 1980s to finance structural adjustments in specific sectors. UN agencies, most notably UNICEF, UNDP and UNESCO, were far more cautious about the new turn taken by development aid, pointing to its adverse effects on the situation of the most vulnerable groups who are the main beneficiaries of government involvement in the provision of public education and health. UNICEF called for adjustment policies “with a human face”. UNDP advocated the “social dimensions” of adjustment, while UNESCO was quick to point out that school enrolment ratios decreased in half of African countries during the 1980s.

50. In 1989, an ILO-UNESCO Task Force on Austerity, Adjustment and Human Resources, was established to analyse the responses of the education sector to austerity and adjustment programmes. This Task Force initiated its work by stating that “... *the reduction of public budgets, clearly one of the major effects of increased debt burdens, stabilization and adjustment measures, has brought many education systems to a state of shock. Governments have reacted by reducing education expenditures which has resulted in a decline in real education expenditure per student, particularly in Africa and Latin America...*” The Task Force also claimed that “*Reductions in education expenditures are a serious threat to education quality and equity...*”¹². The foreseeable consequences of budgets cuts in terms of overcrowded classrooms, inadequate school supplies and equipment, underpaid teachers and high pupil-teacher ratios were high in the mind of the members of the Task Force who decided to proceed with an in-depth analysis of the education responses to budgets cuts in five countries.

51. At first, the findings of the Task Force did not fully meet its expectations, as governments in the countries studied found ways to roughly maintain the share of public spending allocated to education, although adjustment programmes generated strong pressure to reduce the wage bill. Initiatives were taken to reduce the size and/or the wages of the teaching staff through “de-skilling” (lower levels of training), salary increases inferior to inflation or increases in pupil/teacher ratios. Budget cuts also led to shortages of instructional materials and deteriorating facilities. Evidence of declining quality was suspected, but could not be documented properly for lack of measurable quality benchmarks.

¹² Samoff, J. and the Task Force (1994) Crisis and adjustment: Understanding National Responses, in J. Samoff (Ed) *Coping with crisis* (UNESCO Cassell).

52. The adverse effects of structural adjustment policies were more clearly felt beyond education budgets, as some of the spending on education was privatized either by introducing or increasing school fees or by encouraging the establishment of private schools. Private finance substituted for public finance. *"In all the countries studied, inequality in access and promotion within the school system seems to have increased. More affluent families have either been able to purchase higher-quality private education or to organize politically to protect the level or type of education that serves them, thereby permitting the rest of the system to deteriorate"*. Even more important in the present perspective of an all-out drive to achieve EFA goals, *"... crisis and adjustment seem to have undermined the widely announced commitment to shift emphasis toward primary education"*¹³, due to the increasing share of higher education in education spending.

53. These findings are supported by casual observation of many education systems functioning under constant financial pressure, let alone in crisis times:

- private education enrolments increase as more affluent families seek to escape worsening conditions and quality in public schools and can afford higher quality fee-paying education;
- this shift generates a politically strong demand for more spending on secondary and higher education, often in private establishments,
- ...which leads to a gradual deterioration of public primary education, as political support for this level weakens.

54. In recent years, many countries in Latin America and Asia have experienced a sequence of this kind whereby privatization encouraged by constraints on public budgets, has fuelled a shift of resources and political attention from primary to secondary and higher education and led to increasing segmentation between public and private education, together with widening regional differences to the disadvantage of the poorer areas of the country. Equality and equity are the most obvious casualties of financial constraints on public education budgets.

55. According to a recent World Bank report¹⁴, the effects of past crisis on enrolments were mixed, with the negative effects concentrated in poor countries and households. Thus, in the mostly middle-income countries of the LAC region, there is little evidence that enrolments systematically declined during the crisis of the eighties. It may be that, although poor households are faced with increasing difficulties to finance expenses linked with school attendance, they keep sending their children to school, as there is no other opportunity for them, even in the informal labour market (what economists called "low opportunity costs of schooling"). In poorer countries, most notably in Sub-Saharan Africa, past evidence shows that primary completion rates are lower during economic downturn, suggesting that *"the current crisis will almost certainly have an adverse effect on enrolments and may even reverse recent progress towards the elusive goal of universal primary school completion"*.

56. Past crises are widely believed to have had adverse effects on learning, as dwindling resources put pressure on the functioning of schools through declining teacher performance (low morale, rising absenteeism) and higher pupil/teacher ratios. However, the effects of past economic downturns on learning cannot be documented properly in the absence of rigorous evidence of learning performance. As more and more developing countries participate in comparative studies of learning assessment, one can only hope that the international community will be better equipped this time to assess the impact of the present crisis on learning quality.

¹³ Idem, chapter 11

¹⁴ *Averting a Human Crisis during the Global Downturn. Policy Options from the World Bank's Human Development Network*, Conference Edition.

2.2 Are education budgets protected?

57. As mentioned earlier, the current crisis is different from earlier ones to the extent that it did not originate in the fiscal or trade situations of developing countries, but in the implosion of financial systems in advanced economies. As it propagates throughout the world, it has become more “global”, that is, affecting all economies, albeit to a varying degree, than previous crises. So far, the consensus among the international community is that restoring aggregate demand through a mixture of budget deficits and increased ODA is the only way to restore confidence and ride out the crisis. In recent months, developed countries, followed by several middle-income, emerging countries have been leading the way by taking bold initiatives in this area. Whether these initiatives will be sufficient and, even more importantly, adapted to developing countries' needs, is still a matter of debate. Bold stimulus packages, including increased social transfers, are being announced in most developed countries, whilst low-income economies lack the necessary fiscal space to do so, unless supported by the international community.

58. **In contrast with past crises, budgetary orthodoxy is no longer a prime objective of economic policies for the time being.** Investment programmes in infrastructure are emerging here and there to boost demand and all these elements provide a much more favourable background for the preservation of the provision of public services and, therefore, of education budgets than during past crises.

59. This is not to say that education expenditure is immune to the current crisis. Education budgets have been, and will be, affected in many countries, but it is encouraging to note that investment in education is increasingly seen as part of long-term investment programmes designed to sustain demand and restore growth. Whether education budgets are “protected”, and to what extent, is the object of this section. The findings of the Quick Survey regarding trends in education expenditure are summarized below. In most cases, education budgets reported here are effective expenditures for 2007 and 2008 and voted or projected budgets for 2009. Therefore, the following findings have to be taken with necessary caution. Some countries reported amended budgets for 2009, reflecting the impact of the crisis on their prospective educational spending.

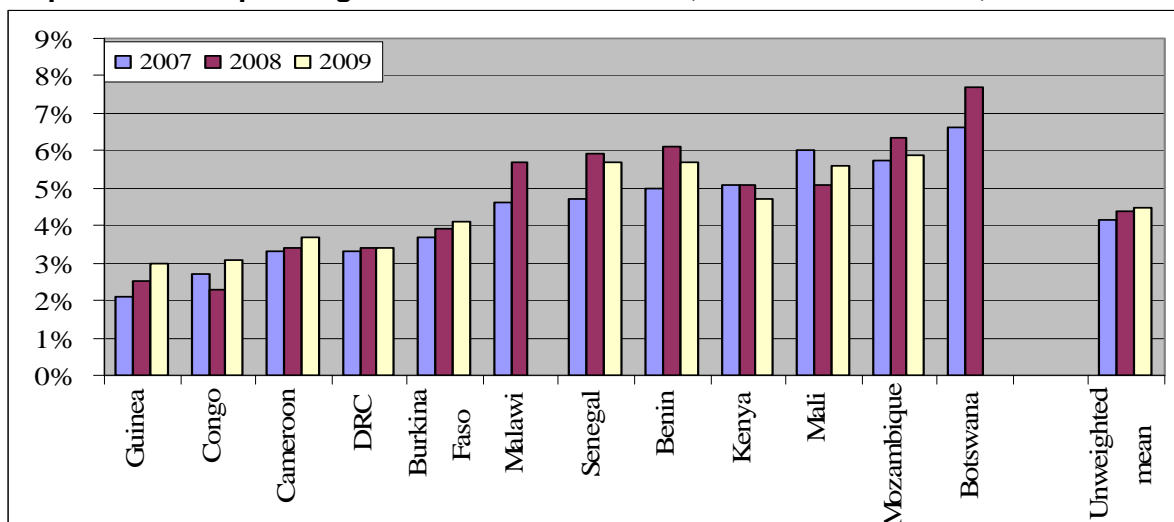
Sub-Saharan Africa

60. Countries surveyed in the region spent from 2.3% (Republic of Congo) to 7.2% (Botswana) of their GDP for education in 2008. All countries, except Kenya and Mali, are expected to allocate more in 2009 for education than in 2007 in terms of its share in GDP. The unweighted mean of the public expenditure on education as a percentage of GDP for surveyed countries was 4.2% in 2007, 4.4% in 2008 and is expected to be 4.5% in 2009 (i.e. an increase of 0.1 percentage point in 2009).

61. In terms of the share of education expenditure in domestic revenue (Graph 7), the Republic of Congo¹⁵ is spending as little as 3.4% on education in 2009. By contrast, it is reported that Senegal spent almost 50% of its domestic revenue on education in 2008. The un-weighted mean is around 20%: 19.5% in 2007, 21.3% in 2008 and 20.6% in 2009, which means a projected decline of 0.7 percentage point in 2009.

¹⁵ The data on educational spending for the Republic of Congo are still being verified.

Graph 6: Public spending on education as % GDP, Sub-Saharan Africa, 2007-2009

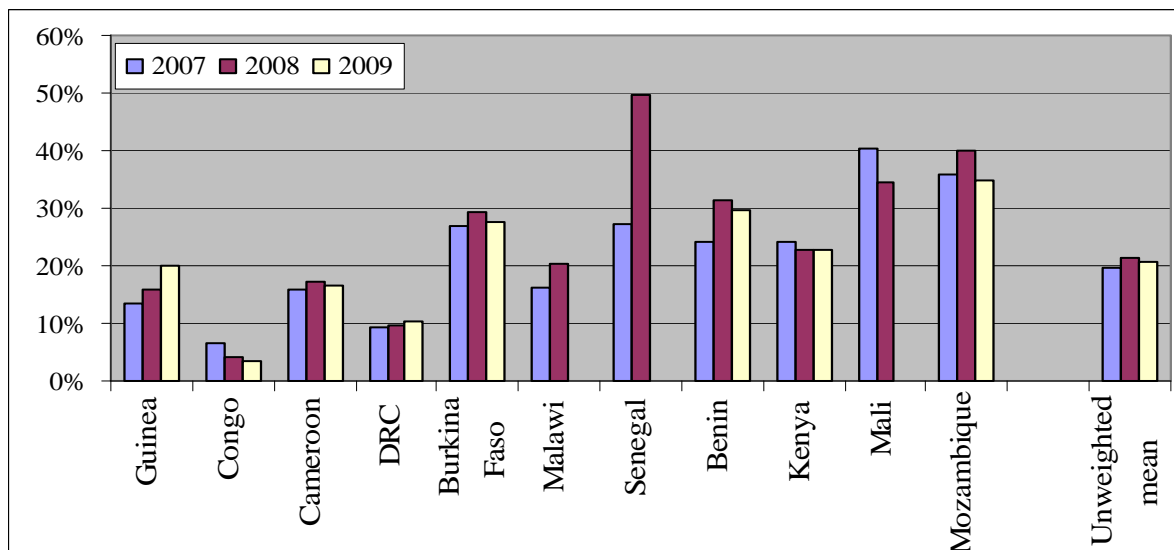


Source: Based on country responses to UNESCO Quick Survey, April-June 2009

Note: The ten countries taken in the calculation of the mean are: Guinea, Congo, Cameroon, DRC, Burkina Faso, Senegal, Benin, Kenya, Mali, and Mozambique.

62. Overall, the data do not suggest any decisive cut in the share of domestic revenue devoted to education for the time being, exceptions being Congo and Mali. In these two countries the share of domestic revenue allocated to education has been on a downward trend since 2007 (Graph 7).

Graph 7: Public spending on education as % of domestic revenue, Sub-Saharan Africa, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

Note: The eight countries taken in the calculation of the mean are: Guinea, Congo, Cameroon, DRC, Burkina Faso, Benin, Kenya, and Mozambique.

63. **Table 5** shows trends in education spending, expressed in US dollars. Among the eleven respondent countries, public education expenditure will actually decline in three countries (Cameroon, Congo and Sudan) in 2009. It will be lower in 2009 than in 2007 in one country (Kenya).

Table 5: Trends in public expenditure on education, Sub-Saharan Africa, 2007-2009

Country	2007	2008	2009	2007	2008	2009	2007-2008	2007-2009	2008-2009
	US\$ million			Index 2007 = 100			'+' increase; '-' decrease		
Benin	275.0	423.9	426.9	100	154	155	+	+	+
Botswana	805.2	998.2	na	100	124	na	+	na	na
Burkina Faso	247.9	316.3	329.4	100	128	133	+	+	+
Cameroon	673.2	794.2	781.5	100	118	116	+	+	-
Congo	209.8	242.5	231.3	100	116	na	+	+	-
Guinea	93.8	101.4	126.7	100	108	135	+	+	+
Kenya	1,669.9	1,512.2	1,529.6	100	91	92	-	-	+
Malawi	112.8	148.2	na	100	131	na	+	na	na
Mali	401.3	368.5	430.3	100	92	107	-	+	+
Senegal	522.9	753.3	798.7	100	144	153	+	+	+
Sudan	199.2	237.1	212.9	100	120	108	+	+	-
Count	11	11	9	11	11	9	9	8	6

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

64. Thus, the current crisis has not yet affected education expenditure in a decisive way but it may be just a question of time before the economic slowdown is felt in social sectors such as education. Some countries are already experiencing difficulties while others perceive clear signs of upcoming stress. The following examples, drawn from survey responses, give a flavour of the on-going public debate about education spending:

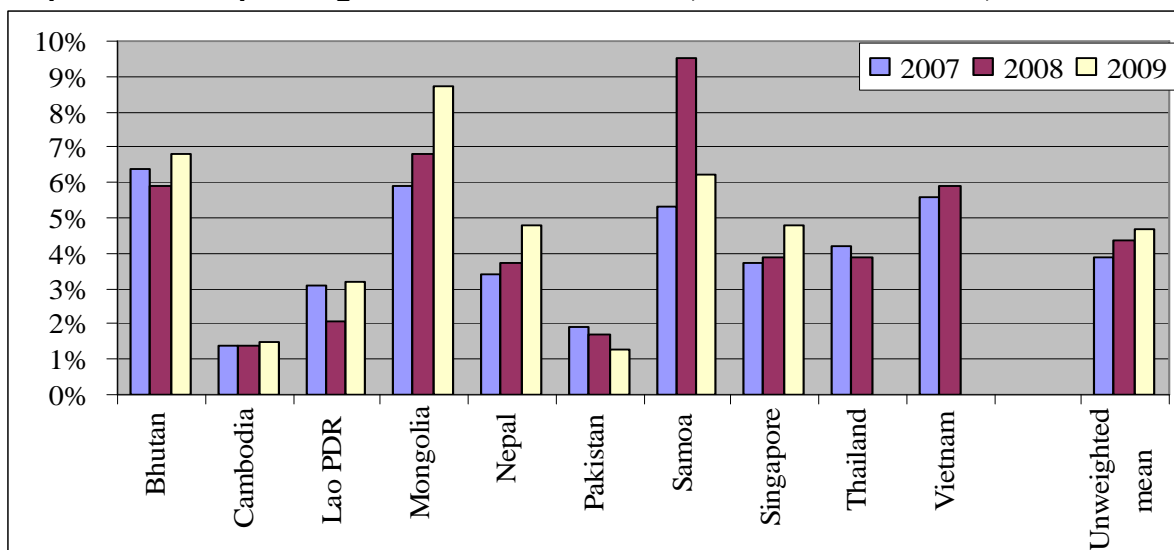
- **Botswana.** It is expected that the 2009 education budget will be affected by the crisis and that some development projects will be deferred for lack of funding.
- **DRC.** The economic decline resulting from the crisis is likely to delay the implementation of a national policy for school fees abolition and compulsory primary education. This commitment was adopted in the DRC Constitution in 2006, and its implementation was supposed to start in 2009.
- **Republic of Congo.** The following consequences are feared: (i) difficulties to ensure teachers' in-service training, especially in the area of technical and vocational education and training (TVET) and higher education; (ii) weakening of institutional capacity, especially as regards teachers; (iii) deterioration of teacher's working conditions and motivation.
- **Ghana.** Teacher recruitment has been frozen, due to economic slowdown.
- **Zimbabwe.** It is expected that the investment budget will be affected and that programmes like sports and cultural promotions will be cut.

Asia and the Pacific

65. Public expenditure on education as a share of GDP runs from very low levels in Cambodia, Lao PDR and Pakistan to appreciably high levels in Bhutan, Mongolia and Vietnam. Although data from respondent countries are incomplete, they do not point to reduced spending on education as a percentage of GDP in 2009 as compared to 2008, except in Pakistan and Samoa (the latter after a sharp increase in 2008). Several countries have indeed maintained or even substantially increased their education spending (e.g. Mongolia¹⁶ and Singapore). On average (un-weighted), the public spending on education as a percentage of GDP was 3.9% in 2007, 4.4% in 2008 and is expected to reach 4.7%, reflecting a clear upward tendency in the eight respondent countries.

¹⁶ The figure for 2009 educational expenditure for Mongolia is proposed budget, i.e. MNT 544.6 billion.

Graph 8: Public spending on education as % GDP, Asia and the Pacific, 2007-2009

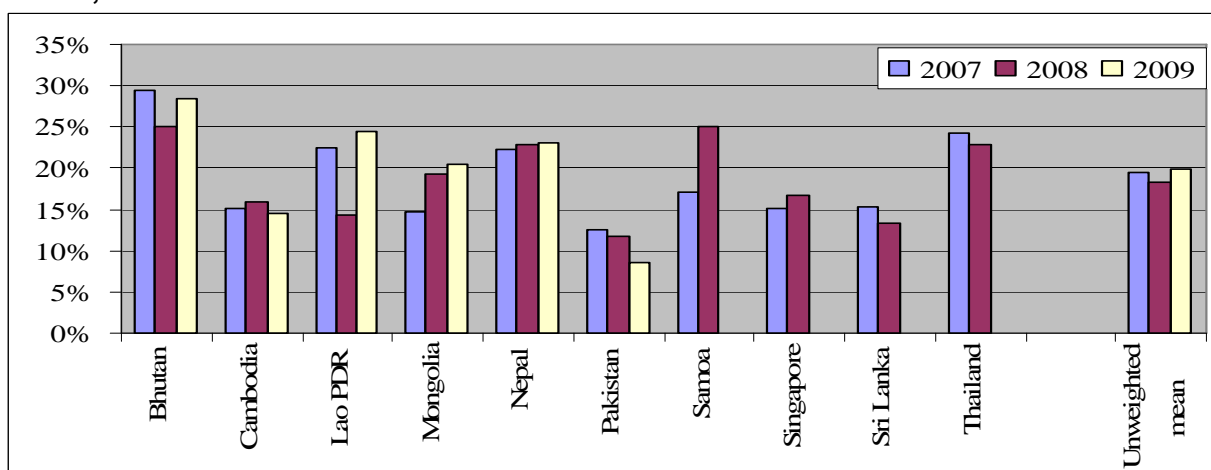


Source: Based on country responses to UNESCO Quick Survey, April-June 2009.

Note: The eight countries taken in the mean are: Bhutan, Cambodia, Lao PDR, Mongolia, Nepal, Pakistan, Samoa and Singapore.

66. Public spending on education as a share of government revenue was low in Cambodia and Pakistan in 2007-2008 and will further decrease in 2009 from an already low level. Although no information is available in some countries surveyed, one can say that so far, education budgets have been rather resilient. In six countries for which data are available, the (unweighted) average public expenditure on education as a percentage of government revenue was 19.4% in 2007, 18.2% in 2008 and 19.9% is expected for 2009.

Graph 9: Public spending on education as % of domestic revenue, Asia and the Pacific, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009.

Note: The six countries taken in the mean are: Bhutan, Cambodia, Lao PDR, Mongolia, Nepal and Pakistan.

67. Public educational expenditures, expressed in US dollars, are shown in Table 6. They are expected to decrease over the 2007-2009 period only in two countries (Kyrgyzstan and Pakistan) among the eight countries for which data are available.

Table 6: Trends in public expenditure on education, Asia and the Pacific, 2007-2009

	2007	2008	2009	2007	2008	2009	2007-2008	2007-2009	2008-2009
	US\$ Million			Index 2007 = 100			'+' increase / '-' decrease		
Bhutan	70.1	74.8	93.1	100	107	133	+	+	+
Cambodia	123.4	152.8	179.2	100	124	145	+	+	+
India	56,033.7	68,755.6	na	100	123	na	+	na	na
Indonesia	4,297.3	4,672.7	5,125.5	100	109	119	+	+	+
Kyrgyzstan	1,274.1	1,289.2	1,113.8	100	101	87	+	-	-
Lao PDR	129.1	110.7	187.4	100	86	145	-	+	+
Mongolia	233.5	354.0	419.0	100	152	179	+	+	+
Nepal	353.9	415.7	491.6	100	117	139	+	+	+
Pakistan	2,671.9	2,972.2	2,036.6	100	111	76	+	-	-
Samoa	19.8	37.4	33.5	100	189	170	+	+	-
Singapore	6,959.0	7,539.0	8,700.0	100	108	125	+	+	+
Thailand	10,296.8	10,873.2	na	100	106	na	+	na	na
Vietnam	4,001.5	5,303.5	na	100	133	na	+	na	na
<i>Count</i>	<i>13</i>	<i>13</i>	<i>10</i>	<i>13</i>	<i>13</i>	<i>10</i>	<i>12</i>	<i>8</i>	<i>7</i>

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

68. In some cases governments are strongly calling for maintaining or even increasing education spending. At this stage, the general prognosis is that education has been, and will be, protected. However, increases in educational spending will be weaker than in previous years. The poorest countries will not be able to carry out or expand social programmes without foreign support. The following accounts illustrate the impact of the current crisis on public education expenditure at country level, and gives some examples of the responses given by respective governments:

- **Mongolia.** Although the expenditure was reduced as compared to the initial budget, educational expenditure in Mongolia is still increasing in 2009. Following the decision to provide meals free of charge to kindergarten and primary school children, enrolments have been increasing, particularly in preschool and secondary education. This programme benefits from support from the ADB. Financial crisis and increasing unemployment are reported to further increase the demand for education, especially among the poor and herders who lately have been increasingly migrating to suburban regions. Provision of kindergarten meals, textbooks, and lunches for primary and secondary school student are said to relieve the poor and vulnerable families from some financial burden during crisis situation. During economic recession, the Ministry of Education, Culture and Science is determined to use any additional funding resources for two main policy objectives: 1) to prevent school drop-out rate by reducing the cost of education, and 2) increase school capacities to accommodate the increasing number of students. However, as a result of budget cuts in capital expenditure, suburban region schools and kindergartens may no longer have the capacity to admit the increasing numbers of children, unless using massive double or even triple sifting systems¹⁷.
- **Pakistan.** Social sector spending such as on education, health, population planning, as always, is being trimmed. In the education sector, recurrent expenditure, which mainly comprises salaries (of existing staff), has not been curtailed so far. However, the crisis is having a major effect on development programmes. Release of funds for the ongoing projects on the verge of completion, as well as for newly approved projects have been cut down drastically. Development budgets for elementary education, early childhood education, literacy and non-formal education programmes have been cut down up to 40%. Informal reports from the Ministry of Education and newspaper clippings show a bleak picture of financial resources being made available to public education sector and

¹⁷ The Parliament of Mongolia approved a total sum of MNT 432.9 billion, which has been trimmed down to MNT 396.5 billion, representing a 27% reduction from the proposed budget.

development expenditures are mostly being curtailed or put on hold.

- **Pacific Islands.** The crisis affects in a varying degree all small islands. According to the responses to the survey (Kiribati, Samoa, Tonga, Vanuatu), the general fear is that schooling would backtrack, especially in remote and poor areas, due to decreased family income and increased burden for schooling.
- **Cambodia.** The government is implementing a school feeding programme, thanks in large measure to support from donors.
- **Singapore.** The Minister of Education stated in Feb 2009 that “*despite the downturn, we will continue spending on education and indeed accelerate some major strategic initiatives. For this financial year, the educational budget has increased by 5.5% to \$8.7 billion. MOE will project that the spending on education will increase by 25% to \$11 billion by 2013*”.

Arab States region

69. Incomplete data from most respondent countries in the region do not allow a quantified, meaningful assessment of the impact of the crisis on educational spending (Table 7). However, on the basis of the returns of the surveys, one may observe contrasting responses to the crisis. Some countries are adopting a pro-active attitude by increasing education budgets (Lebanon, Egypt), while others (Jordan, Sudan) are envisaging more restrictive policies vis-à-vis their education budgets.

Table 7: Trends in public expenditure on education, Arab States region, 2007-2009

	2007	2008	2009	2007	2008	2009	2007-2008	2007-2009	2008-2009
	US\$ million			Index 2007 = 100			'+' increase; '-' decrease		
Egypt	5,470.2	6,760.3	7,468.4	100	124	137	+	+	+
Jordan	2,000.0	2,500.0	na	100	125	na	+	na	na
Palestine	na	460.0	500.0	100	Na	na	na	na	na
Qatar	1,103.5	2,057.9	na	100	186	na	+	na	na
Sudan	199.2	237.1	212.9	100	119	107	+	+	-
Yemen	134.5	143.3	154.9	100	107	115	+	+	+
<i>Count</i>	5	6	4	6	5	3	5	3	2

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

- **Sudan.** A 10% cut in public expenditure on education is expected in 2009, as a result of severe cuts in teacher salaries in 2009. The 2009 budget was voted on a basis of a high oil barrel price. The drop in prices that occurred during the first quarters of 2009 had a negative impact on government revenue that barely covers the first quarter of the Southern Sudan budget. As a consequence, civil servants' salaries (teachers in particular) are expected to be cut in 2009; cuts in salaries, emoluments and allowances have started from February 2009.¹⁸
- **Lebanon.** Despite the decline in government revenue the wage bill in the education sector is expected to increase by 33% in 2009 (which corresponds to 2.1% of the GDP) as a result of one-off retroactive payments to teachers, substantial new teacher hiring and fixing the situation of some contractual teachers. Capital investment in education will also increase to expand domestically-financed capital expenditure by around 0.9% of GDP

¹⁸ The recurrent government education expenditure represents between 80% and 90% of the total education expenditure; capital expenditure mainly depends on foreign grants and loans.

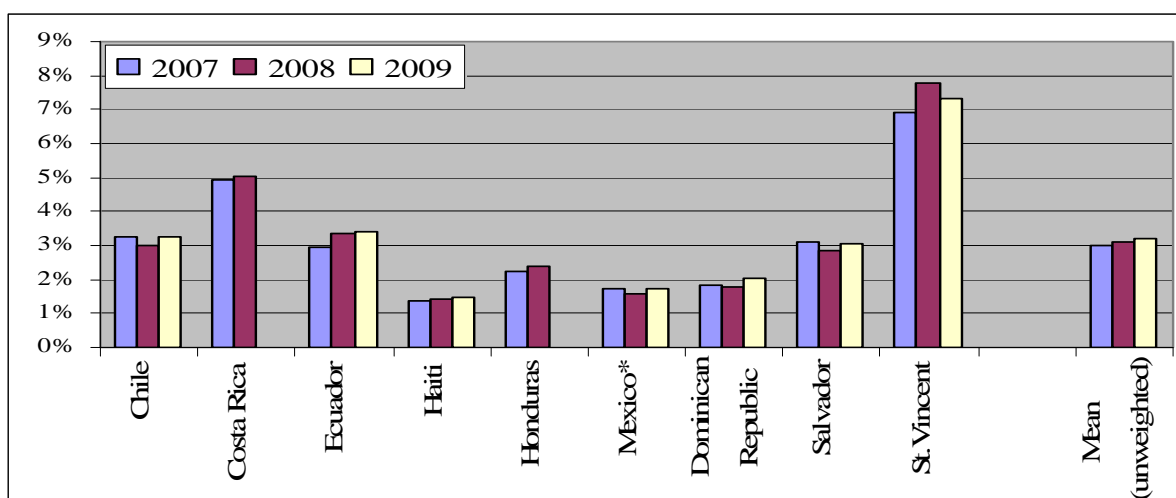
compared to 2008. The objective of the government is to stabilize public education expenditure at around 10% of the total government expenditure (3% of the GDP) during the next years. An important feature of the Lebanese education system is that the public expenditure on education accounts for only one third of the total national expenditure on education as two-thirds of schools are private institutions. As a result of falling family income, Lebanese households may face some difficulties in keeping their children in private, fee-paying, schools and universities, possibly causing a shift to public schools.

- **Jordan.** Although the government gives a pivotal role to the education sector in its human resources development strategy, cuts in the education budget are conceivable taking into consideration the deterioration of government revenue. The government has already put a freeze on additional recruitment of teachers and has postponed any salaries improvement in spite of increased living costs.
- **Yemen.** As in other countries in the Arab region, households in Yemen were hit hard by the food crisis in 2008; and although food prices have declined, they remain high by historical standards and will continue putting pressure on household budgets. The Yemeni government has also announced a decrease of 14% of foreign aid in the government education expenditure in 2008 and 40% in 2009.
- **Egypt.** The government has voted an increased budget for 2009 and still considers education as a priority, as witnessed by the substantial planned increase in education expenditure.

Latin America and the Caribbean

70. In the countries surveyed, public spending on education as a percentage of GDP is in general low, except in Costa Rica and St Vincent. No decisive cut is expected and it may even increase in several countries. The unweighted average of public spending on education as a percentage of GDP was 3.0% in 2007, 3.1% in 2008 and is expected to reach 3.2% in 2009 among the ten respondent countries

Graph 10: Public spending on education as % GDP, Latin America and the Caribbean, 2007-2009

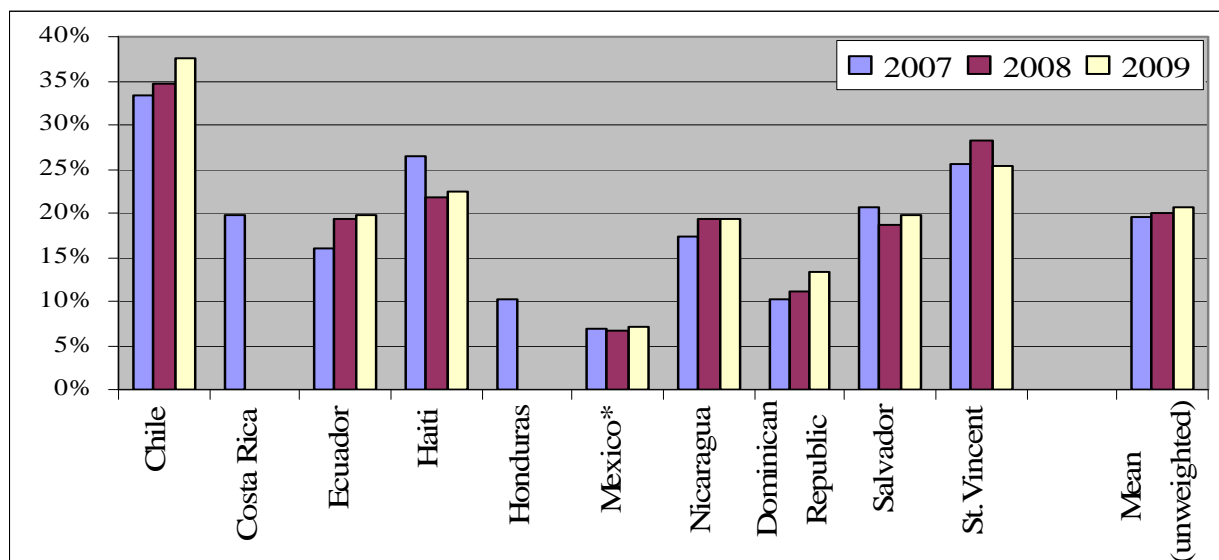


Source: Based on country responses to UNESCO Quick Survey, April-June 2009

Note: Mexico's educational expenditure represents the **federal** government budget for public education only. The eight countries taken in the mean are: Chile, Costa Rica, Ecuador, Haiti, Mexico, Dominican Republic, El Salvador and St Vincent.

71. Turning now to the share of domestic revenue devoted to education, the mean for the surveyed countries is 19.6%, 19.9% and 20.6% for 2007, 2008 and 2009 respectively. It is expected to increase in Ecuador, Nicaragua, Chile, the Dominican Republic and Mexico.

Graph 11: Public spending on education as % of domestic revenue, Latin America and the Caribbean, 2007-2009



Source: Based on country responses to UNESCO Quick Survey, April-June 2009

Note: Mexico's educational expenditure represents federal government budget for public education only. The eight countries taken in the mean are: Chile, Ecuador, Haiti, Mexico, Nicaragua, Dominican Republic, El Salvador and St Vincent.

72. When expressed in US dollars, public education expenditure will decline in two countries (Mexico and St Vincent) out of eight and it will be lower in 2009 than in 2007 in Mexico.

Table 8: Trends in public expenditure on education, Latin America and the Caribbean, 2007-2009

	2007	2008	2009	2007	2008	2009	2007-2008	2007-2009	2008-2009
	US\$ million			Index 2007 = 100			'+' increase; '-' decrease		
Chile	6,604.0	7,050.0	7,626.0	100	107	115	+	+	+
Costa Rica	1,292.3	1,425.7	na	100	110	na	+	na	na
Ecuador	1,348.5	1,751.5	1,751.5	100	130	130	+	+	=
Haiti	153.5	166.3	176.2	100	108	115	+	+	+
Honduras	280.0	340.0	na	100	121	na	+	na	na
Mexico	15,697.1	18,252.4	14,888.9	100	116	95	+	-	-
Nicaragua	596.1	821.1	1,017.2	100	138	171	+	+	+
Dominican Republic	700.4	781.9	916.0	100	112	131	+	+	+
Salvador	635.7	632.2	702.5	100	99	111	-	+	+
St. Vincent	38.1	46.9	45.4	100	123	119	+	+	-
Count	10	10	8	10	10	8	8	7	5

Source: Based on country responses to UNESCO Quick Survey, April-June 2009

73. Overall, the prospects for public spending on education are encouraging throughout the region because social sectors have become investment niches to tackle the current crisis. Below are presented a few examples of the policy responses given by LAC governments to the current crisis:

- **Mexico.** The Federal Government expenditure for education increased rapidly in 2007 and 2008 and no cuts are planned in 2009: however, in US\$ terms, the budget for 2009 represents a decrease from 2008. Although GDP and government expenditure are expected to decline in 2009, the share of Government's expenditure on education both public expenditure and GDP is likely to increase to reduce the impact of the loss of earnings over education spending. This is a sure sign that education remains a priority. The government has initiated an eight-billion pesos plan to finance a massive programme in educational infrastructure that aims at improving educational quality and re-injecting money into the economy. The strengthening of the Mexican programme, called *Oportunidades*, is a good example of such trend. In June 2009, Mexico and IADB signed an agreement to disburse \$600 million to continue supporting this pioneering conditional cash transfers programme that the IADB has supported for the past seven years. The programme seeks to improve nutrition, health, and education among the poor nationwide. Expenditure on private education is high in Mexico and is much more likely to be affected by the crisis as a consequence of falling household incomes.
- **Ecuador.** Government education budget will level off in 2009, but expenditure per student might decline, as enrolments shall keep increasing. The government is committed to protect social sectors, among which education, in accordance with the ten-year development plan. There are, at present, no sign of interrupting on-going ambitious plans regarding teacher training, improved salaries for teachers and community educators, literacy programmes, and the rehabilitation of school buildings.
- **Chile.** Thanks to a newly created contingency fund social sectors are to be preserved. In terms of education spending in 2009, one can note an increase of education expenditure whether in actual terms or as a percentage of GDP or domestic revenue compared to 2008. It is interesting to report the increasing financial resources devoted to education in the demographic context of the country. As the population growth rate is diminishing, unit costs per student are likely to increase significantly in the near future. A programme providing monetary allowances and benefits for education and health services to poor families is under implementation.

74. The reaction of these three countries is noteworthy because they all face a negative GDP growth in 2009. One might think that the lessons of the last crisis, which affected Latin American economies so badly leading some of them to bankruptcy, were well learned. Long-term investments in education and capital spending (infrastructure) are now considered by these Governments as long-term policies for investing in human capital and for ensuring a solid economic recovery.

75. Other sources than the Survey confirm the specificity of the LAC countries where important countercyclical measures have been taken to mitigate the impact of the crisis on the poorest by implementing or strengthening large social transfer programmes: In Brazil, upon ILO recommendation, the Government has maintained and strengthened a social protection programme created in 2003, called the *Bolsa Familia*, that provides financial support to 11.1 million of Brazilian families for children's education and health. Other LAC countries are financing social programmes, namely Colombia (Increasing coverage of the Families in Action Programme), Costa Rica (the crisis plan *Escudo* foresees, inter alia, an increase of scholarships to facilitate access to tertiary education for a higher number of students), El Salvador (Solidarity Network and Alliance for the family), and the Dominican Republic (Solidarity).

76. Most of the countries cited above run these counter-cyclical packages on the surplus they were able to save during the previous years of high economic growths. However, these social responses to the crisis require substantial additional funding leading the countries to increase their level of public indebtedness by borrowing credits to IADB (*Oportunidades* in

Mexico is entirely funded by a credit subscribed to IADB, the *Plan Escudo* is also mainly financed on an IDB credit) or to the WB (*Bolsa Familia* in Brazil). Currently, the IADB has also increased its financial support to four other countries of the region, among which Honduras and Nicaragua (as up to \$485 million per year will be made available in 2009 and 2010 to help mitigate the impact of the current crisis). Projects in low-income countries such as Haiti (its *Plan de Reconstruction et de Relance Economique*, which relies on school construction for boosting the local economy and strengthening the national labour market, is almost entirely financed by external donors - see Washington Conference 2009). This financial support acknowledges the importance of investing in human capital for increasing productivity and therefore international competitiveness through a strong system of social and labour protection.¹⁹

2.3 Which expenditures are likely to be cut?

Capital versus recurrent expenditure

77. If pressure on education expenditure materializes as a result of the current crisis in government finance, a prime target for restraint will be the biggest item in all education budgets, namely teachers' salaries. Past experiences show that cost-cutting strategies in this area can be achieved in a variety of ways: higher pupil/teacher ratios (PTR), increased workloads (hours of teaching), shorter pre-service training, promotion of non-statutory recruitment (e.g. contract teachers), etc. These practices have been frequently promoted in the past by some donors, most notably but not only, by the World Bank. Many low-income countries (LICs) accepted them as the only way to finance increasing enrolments and to improve the coverage of the relevant age-group, especially in rural areas.

78. The IMF was also influential to the extent that its loans granted through the Poverty Reduction and Growth Facility (PRGF) instrument, established in 1999, were subject to conditions regarding the reduction of fiscal deficits that could not be achieved without ceilings in public sector wages. Because the teaching body makes up the single largest group in public sector employees, deficit-reduction targets always exert a downward pressure on teacher wages²⁰. The influence of the IMF in shaping public expenditure policies is likely to increase in the coming years, as (so far) « *the big winner from the G20 meeting in London in March 2009 seems to have been the IMF* »²¹ to whom the international community pledged vastly increased resources. Under these new circumstances, the prospects for change in IMF policies, i.e. incorporating educational goals, most notably internationally-agreed EFA goals, in its policy package, rather than submitting them to macro-economic targets, have become crucial. Changes in the governance of the IMF, meaning increasing voting shares granted to emerging and low-income countries, might contribute to raising awareness in favour of educational goals and restore a more balanced dialogue between finance and education ministers in budgetary policies.

Findings from the Quick Survey

¹⁹ "Coyuntura laboral en América Latina y el Caribe", Boletín CEPAL / OIT, consulted on 18 June 2009 on: http://www.cepal.org/publicaciones/xml/7/36147/2009-298-Boletin_CEPAL-OIT-WEB.pdf

²⁰ *Education on the brink*, Global Campaign for Education, April 2009

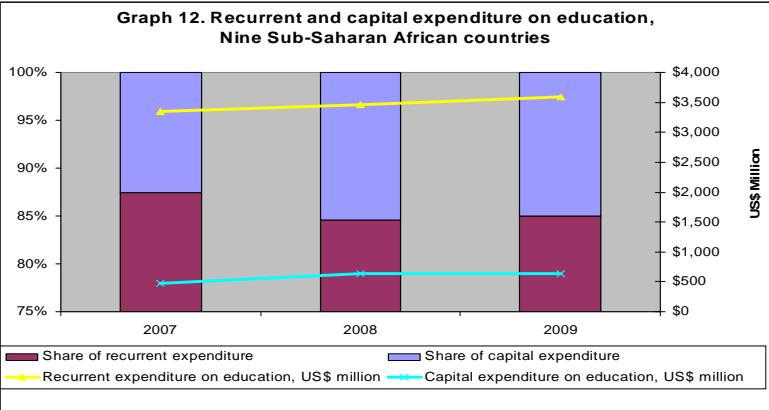
²¹ Ibidem

79. The design of the survey questionnaire does not allow for an insight into what expenditure items are the most likely to be cut. Therefore, it was not possible to derive a general conclusion on this question.

80. However, sporadic reports indicate that some countries are trying to maintain educational spending at all levels and on most budget items. For example, the Singaporean Minister of Education stated at a 2009 fiscal year debate that, despite the downturn, the country will increase educational spending. In Mexico, there was 12% higher public spending in education at federal level for 2007 than was originally allocated, and, in 2008, 9% in local currency. There will be a massive investment programme, including billions invested in educational infrastructure. This investment is seen strategic during this time of crisis to increase and improve educational infrastructure across the country and at all levels of education, in order to improve educational quality and to re-inject money into the economy.

Sub-Saharan Africa (AFR)

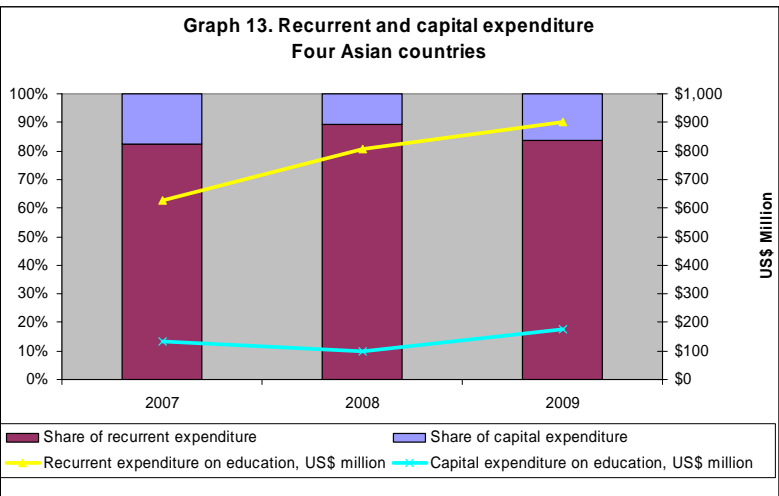
81. Overall, educational expenditure increased between 2007 and 2008 (7%) and is projected to slightly increase in 2009 (3.5%) in the nine countries surveyed (Benin, Burkina Faso, Cameroon, Rep. of Congo, Ghana, Guinea, Kenya, Mali and Senegal),



82. The share of capital expenditure in total education expenditure rose substantially between 2007 and 2008 and is expected to decline slightly in 2009. These trends might indicate that in Sub-Saharan Africa, recurrent expenditure is on the rise during the crisis period, though more slowly than in previous years, while the capital expenditure is being contracted.

Asia and the Pacific (APA)

83. Total educational expenditure increased by 19% annually between 2007 and 2009 in the four countries for which disaggregated data were available (Bhutan, Lao PDR, Mongolia and Nepal), however, capital expenditure actually contracted by almost 30% in 2008 and is projected to increase in 2009. Whether the increase of capital expenditure is going to materialize or not in 2009 is uncertain at this stage.



Box 1: The impact of the crisis on educational spending in Mongolia

There were funding gaps even before the financial crisis hit, and the gaps are expected to expand during the crisis. Initially, the Government of Mongolia proposed to spend MNT 544.6 billion on education. However, the Parliament of Mongolia has approved a total sum of MNT 432.9 billion. The further budget outlook is set to worsen. Due to the financial crisis, the Parliament amended the budget and trimmed it down to MNT 386 billion that raises the budget deficiency to the sum of MNT 158 billion. The latest amended budget figures for 2009 are MNT 396.5 billion (362.9 billion for recurrent and 3.6 billion for capital expenditure), which represents a 27% reduction from the proposed budget and 8.5% cut from the initially approved budget. This cut mainly involves capital expenditure as well as recurrent costs. Until the financial crisis is over, government's intervention is essential to minimize school dropout rate and ensure school capacities to meet the demand for education by reducing parents' expenditures on their children's education.

The table below presents the trends of educational expenditure (recurrent and capital) over the past years. The actual educational expenditure was much higher in 2007 than the initial budget, whether in recurrent or capital spending. In 2008, the year when the crisis broke out, the recurrent spending increased from the previous year, but less than the initial budget. The major budget cut was on capital expenditure. According to various reports, combined with this cut in capital expenditure and due to increases in prices of imported materials, several construction projects were put on hold in 2008. EFA-FTI Catalytic Funding has mitigated to some extent the stress on school infrastructure. The amended budget for 2009 is a modest increase compared to 2008 in local currency terms, but a drastic decrease in US\$ terms, as the government has let its currency against US\$ depreciate throughout 2009. Although capital expenditure for 2009 indicates an increase from 2008, and if history can teach us, we will have to wait for the end-year, actual expenditure.

Recent trends in Mongolia show that basic costs (such as meal and textbook costs) to attend schools and kindergartens are strongly correlated to children's enrolment ratios. Following the endorsement of the "Law on Preschool Education", which stipulates that meals of the children attending state-owned kindergartens will be supported by the state budget, enrolment to schools has been increasing, particularly in preschool and secondary education. The financial crisis further increased the demand for education, especially among the poor and herders who lately have been increasingly migrating to suburban regions. Provision of kindergarten meals, textbooks, and lunches for secondary school students is believed to relieve the poor and vulnerable families from some financial burden during the crisis situation. However, with cuts in capital expenditure, suburban schools and kindergartens no longer have the capacity to admit the increasing numbers of children.

Trends in Government finance and education expenditure for education, 2006-2009 (MNT 000'000)

	2006		2007		2008		2009
	allocated	actual	allocated	actual	allocated	actual	Last amendment
Government finance							
Total Expenditure	1,076,222	1,155,236	1,701,955	1,642,618	1,742,019	1,649,139	1,753,377
Recurrent	899,200	995,617	1,415,070	1,387,602	1,459,813	1,398,370	1,464,387
Capital	177,022	159,619	286,885	255,015	282,206	250,769	288,991
Recurrent, change from previous year	NA	NA	57%	39%	3%	1%	5%
Capital, change from previous year	NA	NA	62%	60%	-2%	-2%	15%
Education expenditure							
Total Expenditure	180,806	189,691.5	203,795	243,712	377,275	355,843	396,532
Recurrent	170,911	180,863	183,991	216,393	348,023	334,744	362,923
Capital	9,894	8,828	19,804	27,319	29,252	21,100	33,608
Recurrent, change from previous year	NA	NA	8%	20%	89%	55%	8%
Capital, change from previous year	NA	NA	100%	209%	48%	-23%	59%

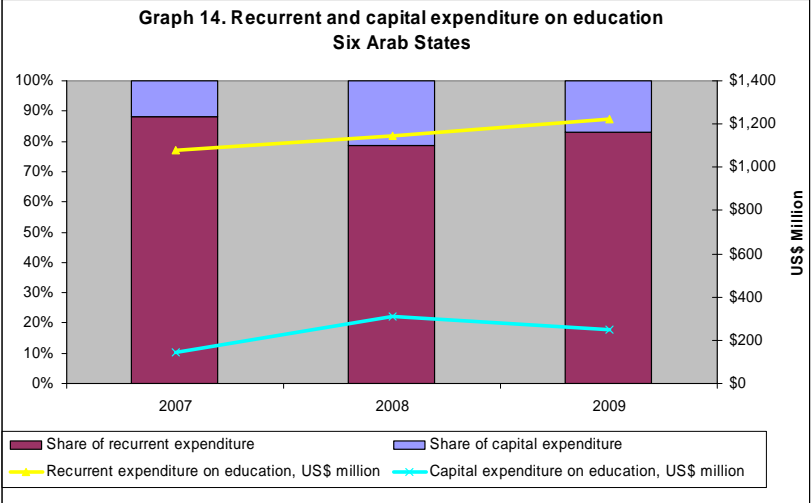
Source: Mongolia response to UNESCO Quick Survey

84. According to some country reports (Pakistan, Mongolia) investment expenditure is being cut the most because of the crisis. In Pakistan, the development budget for elementary education, early childhood education, literacy and non-formal basic education programmes have been cut down by almost 40%. In Mongolia, capital expenditure has been cut to a great extent. Box 1 illustrates the case of Mongolia, which can augur well what could happen in the near future in many countries that will be hit hard by the crisis.

Arab States region (ARB)

85. In the six Arab states for which data are available (Jordan, Lebanon, Palestine, Qatar, Sudan, Yemen), total educational expenditure increased by 19% over 2007-2008, while the increase in 2009 is expected to be much weaker.

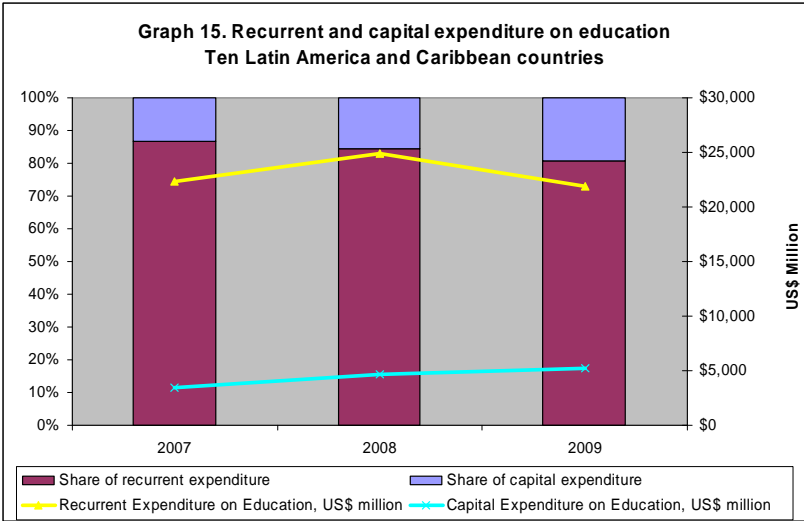
86. In contrast to some Asian countries analyzed above, the rise in capital expenditure was spectacular in 2008, but is expected to decline dramatically in 2009. This might indicate that countries in the region have frozen or cancelled some of their planned investment programmes in 2009.



Latin America and the Caribbean

87. The picture in Latin America and the Caribbean is mixed. Overall, total recurrent educational expenditure, which increased significantly in 2008, is expected to decrease in 2009. However, in average, capital expenditure is rising in the ten countries surveyed (Mexico, Brazil, Chile, Cost Rica, Ecuador, Haiti, Nicaragua, Dominican Republic, Salvador, St Vincent).

88. Possibly driven by the counter-cyclical government measures in the form of public stimulus packages, the share of capital expenditure in total education expenditure continues increasing in 2009 (Graph 15) while recurrent expenditures tend to decline. This is noticeable in the case of Mexico, as well as in Chile and Nicaragua, countries with clear policies for re-injecting money into their local economies. In other countries, the proportion of recurrent and capital expenditures remains more or less the same.



2.4 Conclusions

89. As said earlier, it is too early to conclude, even to speculate on the plausible impact of the economic and financial crisis on 2009 education expenditure. Governments have been amending their finance, and subsequently their education expenditure, in light of the new economic and financial prospects, whereas many others are still discussing on the levels of budget amendments. In countries that saved their earnings during the boom period of past years, there is much more space and hope for government finance to stay stable in 2009 and the next year, as is the case for most Gulf countries. In others, budgets will run on increased deficit in 2009 and beyond.

90. Of the fifty-one countries that responded to the survey, eighteen (35%) are those classified as low-income economies and twenty-two (43%) as lower-middle-income economies. It appears from the survey that so far, most of these countries may not have been hit yet as hard by the current crisis as the other more advanced economies. Many have indeed optimistically forecasted an increased economic growth. However, whether this optimistic forecast is going to be maintained is uncertain. Many of them depend on exports of a few commodities, external aid and remittances. These three sources of revenues are projected to decrease worldwide, weakening the poorer layers of the recipient nations.

91. From the analysis of country responses a few preliminary elements emerge that may indicate the possible impact on education provision in general and on EFA in particular in 2009:

- Overall, advocacy for protecting the education budget prevails in most countries, while, at the same time, worries are manifest that this would depend on the evolution of the economic outlook in the coming months. 2009 education expenditures are reportedly increasing over the previous year in many countries. However, most figures are projected estimates and likely to be amended, depending on the future evolution of economic development and donor aid. In US\$ terms, as many developing countries, especially in Asia and Latin America, depreciated their currencies to cushion the current shock, the anticipated increase in educational expenditure will not be apparent.
- Some governments, especially in middle to high-income economies, are explicitly protecting education budget from cuts by maintaining capital investments at a similar level as before as a means of stimulating the future economic growth or investing in labour-intensive infrastructure area and in order to cushion the increase of unemployment and invest resources into economic development. Weaker economies do not have sufficient fiscal space to do so: thence support by the international community is more than awaited. For aid-dependent countries, especially those heavily dependent on aid for education development, any cut in external financing will have direct impact on enrolments.
- In some countries, unemployment is likely to rise sharply, forcing school graduates to opt for continuing with post-basic and higher education because there are no income-earning opportunities in the near future. This is palpable in countries like Mongolia (already 60% GER in post-secondary and higher education), with risk of further siphoning off both national and family resources that otherwise should be needed for EFA. In countries dependent on food commodities and because of the relative resilience of food products to price decline, parents will be tempted to withdraw their children from basic education schools, because of the increasing opportunity costs. EFA achievement will then be a further risk.

- There are discussions concerning which education budget items could be further adjusted. Amid the fear of social unrest, wages are generally being “protected”, but often in disguised form by either freezing salary increases, needed to reflect the inflation rates, and/or freezing recruitment of new staff (e.g. Ghana). In Mongolia, the combined effect of more migrants expected from rural areas and reduced capital expenditure mean that many suburban schools will run on double or triple shifts. As recent trends show that basic costs (such as meals and textbooks) are correlated to pupils’ enrolment ratios, and that the poor become poorer during the crisis, general provision of meals and textbooks is thus considered in Mongolia.
- Policy responses in crisis times should pay increased attention to targeted support and careful management. For example, untargeted social welfare programmes are contemplated in the education sector in several countries (e.g. generalized free school feeding and textbook distribution), and the financial reallocation to support these initiatives is sometimes taking place, adversely at the expense of already small operational costs, which often have a significant impact on the quality and efficiency of the education system. As these operational budgets are cut in the advent of the financial crisis, parental contributions are then sought to fill the gaps in school running costs. This financial burden is particularly heavy for the poor and vulnerable parents. Thus the social transfers, which are supposed to protect them, will actually mean to be, at least partially, funded by increased contributions by families, including the poor. Therefore, if social transfers in the education sector are not well targeted and carefully managed, their returns on access and quality, particularly for the poor, will be reduced.
- The current crisis can be an opportunity for some countries to improve the governance, address corruption and bring efficiency gains. The time is reportedly ripe for reforms, increasing more targeted support, and reducing the waste of resources. Indiscriminate social transfers are being criticized, in favour of a more targeted support: as the poor tend to use this support for immediate consumptions, such targeted support would be more conducive to reactivating the local economy. Investment in agriculture, in rural education, and in new constructions, is being advocated as a possible way out in the future.

3. Can Official Development Assistance (ODA) help offset the adverse consequences of the crisis?

3.1 Foreign support in times of crisis: lessons from the past

92. In times of crisis, common sense would call on increased foreign support to help the most challenged countries to restore their budgetary balance and achieving the transition towards a new equilibrium. In this respect, the main lessons left by the structural adjustment crisis of the 1980s are worth recalling.

93. When austerity and adjustment programmes are implemented, the financial agenda takes precedence over any other consideration in the policy dialogue between foreign agencies and national authorities. Financiers, i.e. lending agencies and finance ministries, tend to become “advisers”, thus dominating the policy-making agenda with regards to the provision of education at the expense of education ministries²². Cutting costs to restore the balance in public budgets takes precedence over education objectives (quality and equity among others), leaving education ministries with the difficult and not enviable task of managing acute “scarcity” throughout the education sector as a whole. The education sector *per se* is not particularly hit by budget cuts, as a similar situation prevails in **all public services sectors** which are subject to the same austerity measures.

94. As the process of financial adjustment is implemented, it also happens that some educational priorities of lending agencies, such as the repeated calls made by the World Bank to give precedence to primary education during the 1980s, are “lost” during implementation. At the end of the process, public expenditure may actually have been reallocated in favour of higher levels of education which benefit from stronger political support. To put it in other words, **in times of crisis the social dimensions of education policies are often “crowded out”**, unless some specific measures are taken to protect them.

95. An additional consequence of the structural adjustment crisis of the 1980s was the weakening of national capacities for policy and management, as foreign assistance and expertise tend to substitute for national bodies and education ministries in setting priorities and carrying out the necessary preparatory work. Technical assistance may be destructive if it is not properly designed to enhance local expertise. At the end of the decade, UNESCO reacted to this situation by adopting a strategy designed to strengthen the role of education ministries in policy development and dialogue with international agencies and to develop national capacity-building over the longer term.

96. These lessons of the adjustment programmes of the 1980s should be kept in mind when time comes to safeguard the achievements of recent years against possible measures of budgetary austerity. Pessimism is not in order because times have changed. According to a recent study summarizing seven national experiences in implementing and financing Education For All (EFA),²³ there are grounds for optimism for various reasons: There is more consensus now than in the 1980s on civic values favourable to EFA: the approach is sector-wide and participatory; the objectives are set in educational (and not financial) terms;

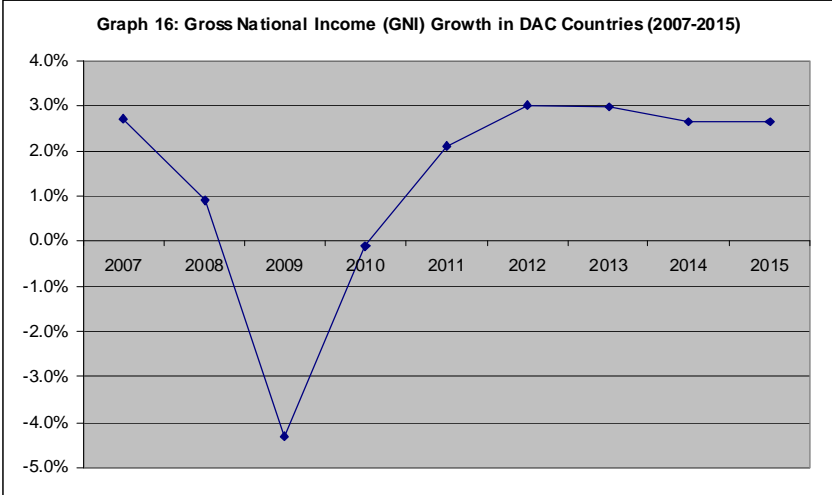
²² Jallade L, Lee E. and Samoff J., International cooperation, in J. Samoff (Ed) *Coping with crisis* (UNESCO Cassell)

²³ *Implementing and financing Education for All*, Education Policies and Strategies 6, UNESCO, 2004

concerns for equity, regional and by gender, is stronger and the donor community is less fragmented and willing to cooperate towards commonly agreed goals.

97. In political terms, developing countries, especially the vulnerable low-income countries, are in a stronger position than during the 1980s crisis to negotiate the pursuit of recent progress in ODA: firstly, because the current crisis is not of their making and secondly, because there is widespread belief that budget deficits can be tolerated to ride out the current crisis. In this respect, one may foresee that it will be easier to convince multilateral donors to increase their efforts than bilateral donors who will have to come to grips with their own budgetary deficits.

98. At a UNESCO Future Forum convened in March 2009 to assess the impact of the crisis on the attainment of the Millennium Development Goals (MDGs) and the implications for foreign aid policies, speakers and participants made pleas to take immediate steps to restore confidence, strengthen the social dimensions of development, avoid cutbacks in official development assistance



Source: Estimated based on OECD and IMF

and make renewed efforts towards “**inclusive multilateralism**”.²⁴ What these nice words mean in concrete terms is unclear at this stage. They could mean increased cooperation among the main economic international agencies to make the multilateral system more effective: drastic reforms of the governance of the IMF and the World Bank to strengthen the role of developing countries in the decision-making process, more flexible IMF attitude towards budgetary difficulties or renewed commitment of bilateral donors to the targets for Africa agreed upon at the Gleneagles summit in 2005.

99. In the meantime, developed countries may be tempted to offset their fast-rising budget deficits by reordering or prioritizing assistance to developing countries at the regional, country or sector levels. Should assistance be more oriented towards low-income countries (LICs) and the poorest LIC groups in general? Should specific actions be taken in order to offset the effects of the crisis in some regions (e.g. Africa)? Should aid concentrate on infrastructure to restore aggregate demand quickly or on investment yielding long-term effects, such as education?

3.2 Trends in ODA flows up to 2010: any impact on the crisis?

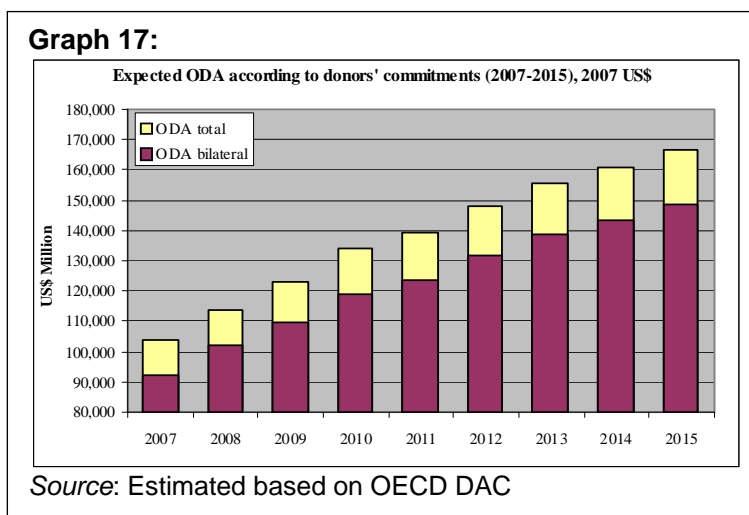
100. The survey questionnaire included a portion on aid to education at country level. However, no answers were given in most cases, and where data were provided, they were either incomplete or insufficient. Therefore, for this report, international sources, especially

²⁴ *The Global Financial and Economic crisis: What Impact on Multilateralism and UNESCO?*, UNESCO Future Forum, 2009.

OECD's DAC data were compiled and used in order to derive some meaningful analysis and forecasts.

101. According to DAC data, total net ODA to developing countries reached the 100 billion mark in 2007, that is an increase of about 50% over the period 2001-2007. Overall, this is a commendable achievement encouraged by the donors' commitment made at the Gleneagles G8 and UN Millennium summits to increase their aid up to 130 billions in 2010 (in constant 2004 US dollars) in support of the Millennium Development Goals (MDGs)²⁵.

102. According to donors' commitments made on different occasions (see Annex 3 for The assumptions of the ODA as a percentage of the GNI), total ODA will increase by 29% between 2007 and 2010, and by 61% between 2007 and 2015 in 2007 US\$ terms (Graph 17) to reach US\$ 165 billion.



103. From the viewpoint of recipient countries, country programmable aid (CPA), subject to multi-year planning, is the critical figure to achieve MDGs. In 2007, only 57% of total bilateral ODA was available for CPA, as several European donors (most notably Austria, France, Germany and Italy), chose to devote a significant proportion of their aid to debt relief and humanitarian aid. Adding CPA from multilateral agencies, total CPA reached US\$ 75 billion in 2007. Sub-Saharan Africa (SSA) where most "vulnerable" LICs are concentrated is expected to receive about 36% of the total, being by far the largest recipient on a per capita basis. Asia, with many highly populated countries, will receive 43% of the total.

104. Estimates of CPA by recipient countries up to 2011 have been made by the DAC Secretariat on the basis on public announcements made by DAC member countries and multilateral agencies²⁶. They indicate an overall increase of 11% expected in gross disbursements in 2008 US dollars without significant shift in the distribution of aid by regions.

105. Whether these estimates will be confirmed by actual disbursements by donors and multilateral agencies embroiled in the current crisis will be a subject of considerable debate among the international community in the coming months. At present, the available evidence can be summarized as follows:

- **Multilateral aid:** Major multilateral agencies seem to be willing and able to offset the adverse consequences of the crisis for growth and government revenue by supporting developing countries' revenue through increased ODA flows. The resources of the IMF have just been considerably enlarged by the G20 and immediate relief could be provided in the form of debt cancellation in the most "vulnerable" countries. Whether a significant proportion of these new resources will help support education, albeit indirectly by sustaining public expenditure, is unclear. The World Bank is proposing to establish a Vulnerability Financing Facility (VFF) "to

²⁵ 2009 DAC Report on Aid Predictability: Survey on donors' forward spending plans, OECD/DCD, June 2009

²⁶ ibidem

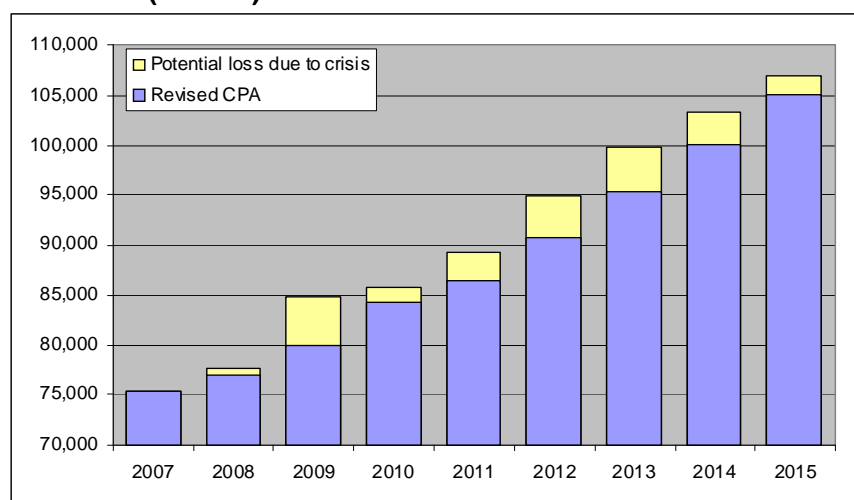
streamline its support to protect the poor and vulnerable during global economic shocks²⁷. Various funds would be incorporated into the new VFF, including the present fast-track facility. Whether regional development banks will be able to follow suit by increasing aid flows is unclear at this stage.

- **Bilateral aid:** This is likely to be strongly affected by donors' budgetary situations. Overall, donors will be less likely to meet their aid commitments. Some countries have declared that they will maintain or even increase aid levels, but others have already taken steps in the opposite direction. Aid amount from the United States Agency for International Development (USAID), the biggest donor, has not been clarified, although the signs are positive²⁸. According to some observers, aid flows are expected to fall significantly as soon as in 2009²⁹.

106. Should these prognoses be confirmed, the share of multilateral aid in total aid, presently a quarter of total CPA, may increase in the future, a point already noted in the DAC report for 2009.

107. Using donors' commitment on ODA and given the new projections of economic growth for DAC countries one can assume the potential loss of the country programmable

Graph 18: Potential loss of CPA due to the current crisis, 2007 USD (million)



Source: Projected based on OECD DAC

aid (CPA) subsequent to the current crisis. Graph 18 presents the estimates of such loss in CPA not only during the crisis period but also beyond.

108. The cumulated loss of CPA for the crisis period 2008-2010 is estimated at around 7 billion in 2007 US\$ prices. If the impact of the crisis on CPA goes beyond the foreseeable crisis period, the cumulative loss of CPA would amount to US\$ 23 billion between 2008 and 2015. As this loss is calculated on the assumption that donors would respect their earlier respective commitments, then the amount risks being higher in the future if donors do not deliver on them. The biggest loss is palpable for 2009 (US\$ 4.8 billion).

²⁷ *Swimming Against the Tide: How Developing Countries Are Coping with the Global Crisis*, Background Paper prepared for the G20 Finance Ministers and Central Bank Governors Meeting, March 13-14, 2009

²⁸ The Acting USAID Administrator said at the DAC High Level Meeting end of May 2009 and then repeated at the G8 Development Ministers meeting in Italy in June 2009: "The US will double its foreign assistance over the next five years."

²⁹ *Financial crisis – Impact on aid flows*, Watching Brief – 5/02/2009, ODI

3.3 Trends in Country Programmable Aid (CPA) for education

109. In this report, the past and future trends of the ODA that might be available for national education systems were estimated in consultation with OECD. 2007 DAC data are used as baseline and the figures given here are expressed in 2007 US dollars.

Table 9: Baseline and key assumptions of economic growth, ODA and CPA trends (2007-2015)

	2007	2008	2009	2010	2011	2015
GNI growth (DAC)	2.70%	0.90%	-4.30%	-0.10%	2.11%	2.65%
ODA/GNI	0.28%	0.30%	0.34%	0.37%	0.38%	0.41%
CPA growth	0.50%	4.84%	3.73%	5.38%	2.63%	5.00%
1. Bilateral DAC ODA						
General budget support as % of CPA (bilateral)	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
CPA Education (% of total CPA)	6.7%	7.1%	7.5%	7.9%	8.3%	10.0%
% of general budget support for education	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
CPA Basic education (% of CPA education)	38.6%	38.8%	39.0%	39.1%	39.3%	40.0%
2. Multilateral ODA						
General budget support as % of CPA	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%
CPA Education (% of total CPA)	8.1%	8.6%	9.1%	9.6%	10.0%	12.0%
% General budget support for education	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
CPA Basic education (% of CPA education)	27.2%	28.8%	30.4%	32.0%	33.6%	40.0%

Source: Estimated in 2007 US dollars, based on DAC data

110. Given the unpredictability of overall economic prospects and donors' commitments, as well as the discrepancies in the DAC reporting system, some assumptions were made to derive an idea of CPA that could be made available for education. The first assumption pertains to the methodology used for scoping CPA education, as explained in Box 2.

111. As indicated in Table 9, DAC countries' economy is expected to contract in 2009 (-4.3%) and slightly in 2010 before recovering from 2011 onwards. ODA as percentage of GNI was 0.28% in 2007, is expected to reach 0.37% by 2010 and 0.41% by 2015. OECD assumes 5% real growth rate in CPA, on average, in line with historical trends.

112. Regarding the CPA for education, the average commitment for 2005-2007 represented 6.7% and 8.1% of total CPA, respectively for bilaterals and for multilaterals: these two figures are taken as 2007 baseline³⁰ and education CPA projections are made in 2007 US dollars. It is assumed that the share of education in CPA will be increased gradually through 2015 to 10% (for bilaterals) and 12% (for multilaterals) of total CPA. The share of basic education in CPA education, which is 38.6% for bilaterals and 27.2% for multilaterals in 2007 is expected to increase to 40% for both bilateral and multilateral donors by 2015 (see Table 9 above).

³⁰ CPA disbursement figures for the education sector available in June 2009. Since the historical reporting on commitments in Creditor Reporting System (CRS) have been much better than the reporting on disbursements, a 3-year commitment average is used by OECD DAC as an estimation for disbursements.

Box 2: Assessing the amount of total aid to the education sector

As reported by EFA GMR 2009, the OECD-DAC statistical reporting system distinguishes three main levels of education. Aid to basic education is comprised of early childhood education, primary education and basic life skills for youth and adults, including literacy. EFA GMR assumes that half of 'level unspecified' aid for education benefits basic education. In addition, the education sector receives aid as part of general budget support. It is assumed that one-fifth of this is allocated to education, with half of that benefiting basic education. Hence, EFA GMR calculates the aid to education as follows (GMR 2009 p209):

- Total aid to the education sector = direct aid (ODA) to education + 20% of general budget support.
- Total aid to basic education = direct aid (ODA) to basic education + 50% of 'level unspecified' aid to education + 10% of general budget support.

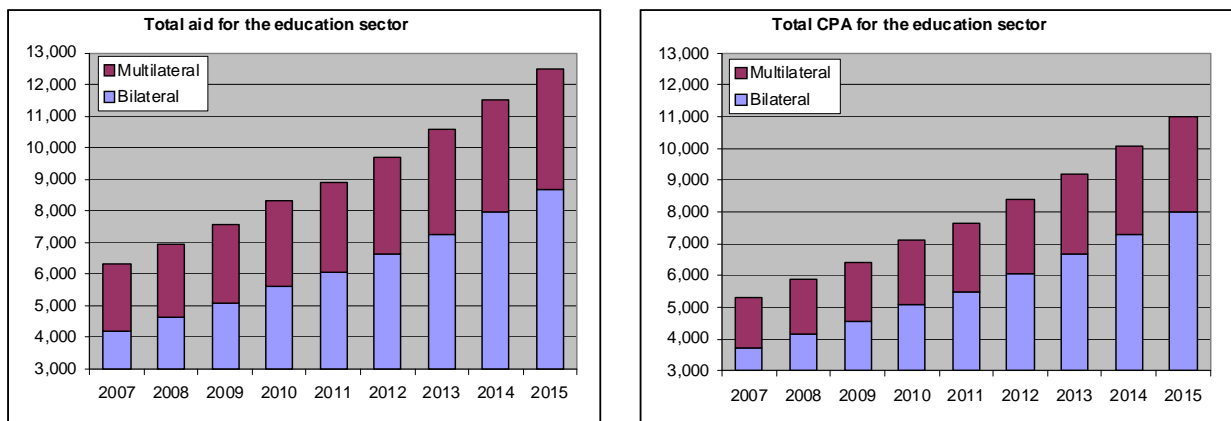
In this report, the estimates on aid to education comprise the direct aid to countries only (country programmable aid – CPA), that is deducting the imputed student costs, but using the same method as EFA GMR adding the extra costs (a portion of general budget support and a certain percentage of 'level unspecified' for basic education). Therefore the method used in this report is as follows:

- Total aid to the education sector = CPA for education + 20% of general budget support.
- Total aid to basic education = CPA for basic education + 50% of 'level unspecified' CPA for education + 10% of general budget support.

113. Annex 3 provides the assumptions on the likely share of Gross National Income (GNI) that may be allocated as ODA by DAC countries, on the basis of their commitments.

114. Using the abovementioned assumptions, aid to education (CPA) is expected to increase by around 30% from 2007 (6.3 billion) to 2010 (8.2 billion) and to double from 2007 to 2015 (12.5 billion) in 2007 US\$ prices.³¹ The share of the aid to the education sector in total CPA would increase from 8.4% in 2007 to 9.7% by 2010 and to 11.9% by 2015.

Graph 19: Projections of total aid to education and education-specific CPA, million USD

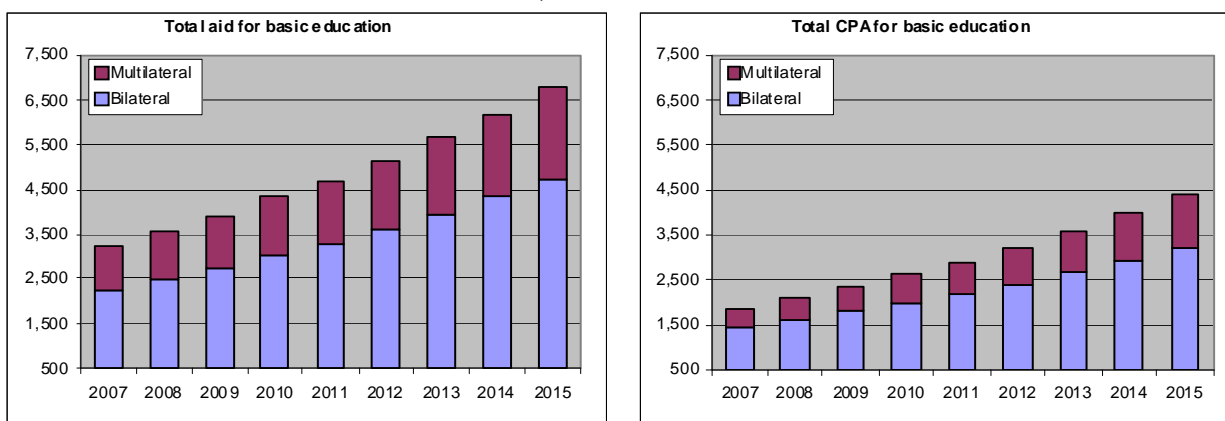


Source: Projected based on OECD-DAC data

³¹ As said earlier in this report, aid to country education is taken from country programmable aid (CPA) figures, i.e. excluding the imputed student costs

115. As regards the aid to basic education (i.e. Education for All subsectors), it is expected to increase by around 33% from 2007 (3.2 billion) to 2010 (4.3 billion) and to more than double between 2007 and 2015 (6.8 billion) in 2007 US\$ prices. The share of the aid to basic education in the CPA for the education sector would increase from 51% in 2007 to 52% by 2010 and to 54% by 2015.

Graph 20: Projections of total aid to basic education and basic education-specific CPA, million USD



Source: Projected based on OECD-DAC data

3.4 Prioritizing aid flows: The case for Sub-Saharan Africa

116. A good case could be made to redistribute ODA in favour of Sub-Saharan Africa because of its crucial importance to sustain public expenditure in LICs in general and of the huge challenge faced by most African countries in achieving the EFA goals by 2015. According to DAC, ODA represented two-thirds of net capital inflows to Sub-Saharan Africa in 2000-2006, a much higher proportion than in other regions of the world.

117. At present, according to the EFA Global Monitoring Report (GMR), aid to education for developing countries, including in sub-Saharan Africa, is far from being sufficient. For the time being, aid growth to sub-Saharan Africa is decelerating and no quick change in the distribution of aid is expected to offset this trend. As said above, the level of aid to the developing world has been revised downwards due to the current crisis (Graph 18): Africa is expected to be most seriously affected by the aid loss.

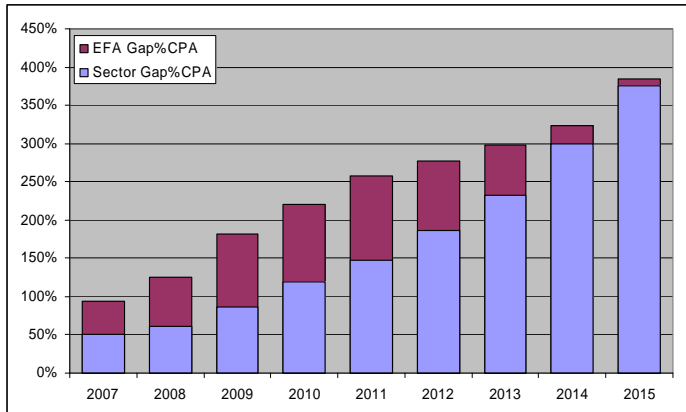
118. The 2009 DAC report on aid predictability deplores that donors are lagging far behind their Gleneagles target for Africa: *“The CPA increase in absolute terms is largest for sub-Saharan Africa. However, this increase, which amounts to USD 1.3 billion, is not nearly enough to meet the 2010 targets for Africa. In fact, the percentage increase of programmed CPA from 2008 to 2010 is higher for South America (16%), North and Central America (10%), and South and Central Asia (6%) than for sub-Saharan Africa (5%).”*

119. The level of aid needed for educational development in Africa is needed is an issue. Several projections on EFA resources have been made by different agencies, including the World Bank and UNESCO. However, many have argued that the financing gaps up to now have been underestimated. The next issue of the EFA GMR is expected to come up with a revised costing for achieving EFA goals and consequent financing gaps, globally and for Africa. At the time of this report, as this revised costing was not available, the preliminary findings of a case study commissioned by the GMR team and conducted for three African

countries³² are used to assess the current level of aid to African education and what level of aid is desirable to fill in financing gaps.

120. Graph 21 shows that the aid gap for Sub-Saharan African education sector in 2007 was around 50% over CPA for the education sector and 90% for EFA over CPA for basic education. This aid gap is not taking into account non-DAC financial support for African education development, which seems to have been increasing over the past years and is expected to be so in the future.

Graph 21: Aid gap for the education sector and EFA, Sub-Saharan Africa



Source: Estimated based on DAC data

Note: Non-DAC aid for education is not taken into account here.

However, if the current patterns of CPA are maintained under the commitments made by DAC donors, the aid gap for African education (after deducting the expected CPA for education south of the Sahara) will increase exponentially to reach 120% by 2010 and more than 300% by 2015. The aid gap for EFA subsectors appears to be consistently higher than for the other subsectors.

121. It is unrealistic to expect that an aid gap of this magnitude could be met by further charging African families. An increased contribution from other stakeholders, including the other OECD, non-DAC countries, non-OECD high-income countries, the emerging middle-income countries, as well as the corporate sector, is necessary in the future. Yet, there is a need for DAC donors to further increase their aid by revising their aid commitments upwards and to improve their aid allocations for Africa.

Table 10: Projected aid to country education and aid gaps in sub-Saharan Africa (Base Scenario)

US\$ million, 2007 US\$ constant	2007	2008	2009	2010	2011
Total aid to country education	2,726	2,958	3,190	3,492	3,720
CPA education	2,068	2,275	2,474	2,729	2,929
Of which bilateral	1,512	1,669	1,821	2,015	2,169
Of which aid to country basic education	1,576	1,718	1,870	2,067	2,223
Of which CPA specific to basic education	883	986	1,094	1,231	1,347
Aid gap for sub-Saharan Africa Education (over domestic resources)					
Education sector	4,113	4,798	5,996	7,694	9,277
Basic education only	3,062	3,905	5,327	6,679	8,008
Aid gap for sub-Saharan Africa Education (after deducting CPA support)					
Education sector	1,387	1,840	2,807	4,202	5,557
Basic education only*	1,486	2,187	3,457	4,612	5,785

Source: Estimated in 2007 US dollars, based on DAC data

Note:

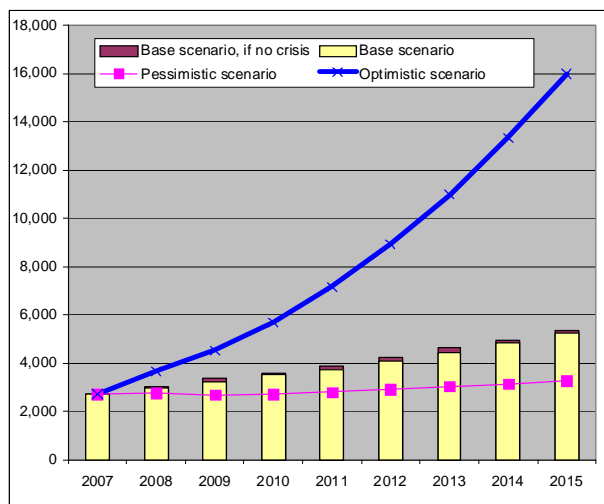
* The higher financing gaps at basic education level than for the entire education sector might reflect the two contrasting realities: (i) either donors' actual support for basic education is insufficiently

³² They are DR Congo, Nigeria and Sudan, which represent 32% of Sub-Saharan African population. For the time being, in this report, the needs of these countries were assumed to represent 1/3 of SSA needs in education.

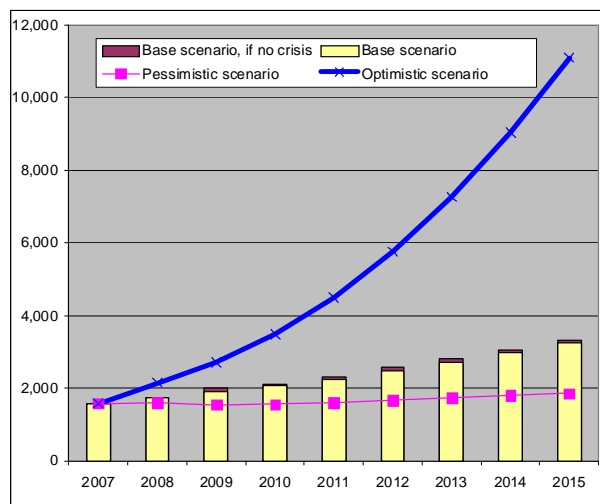
captured due to the OECD reporting system, or (ii) donors' support to the education sector is actually biased towards non-EFA subsectors.

122. Given the huge aid gaps for SSA education (base scenario), various aid assumptions were made to weigh the possible options for narrowing down these gaps: the graphs below present the amount of country programmable aid (CPA) that sub-Saharan Africa may expect to receive for their education development depending on different options and hypotheses.

Graph 22: Aid projections for SSA education (CPA), million USD



Graph 23: Aid projections for SSA EFA (CPA), million USD



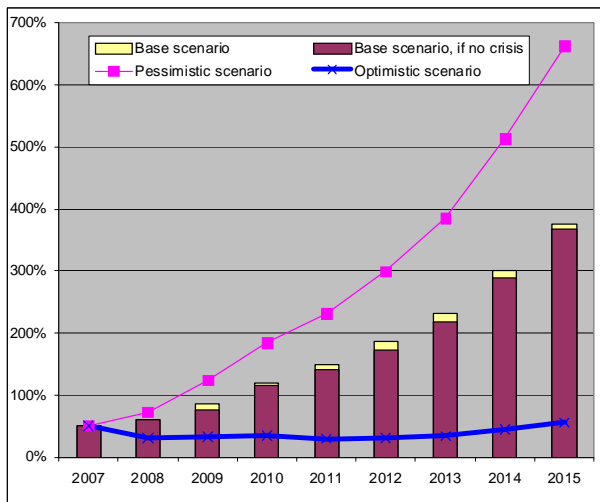
Source: Estimated in 2007 US dollars, based on DAC data

123. The above aid projections according to these scenarios are based on the following assumptions:

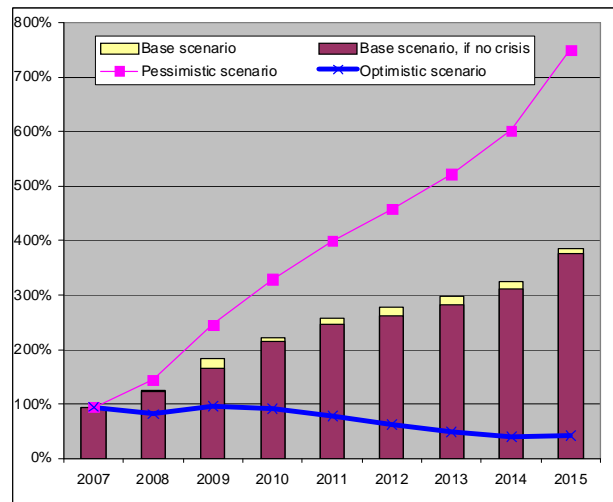
- **Base scenario:** Annex 4 comprises the baseline and assumptions that formed this base scenario. Key assumptions are presented in Table 9 above and its results are presented in Table 10. Basically, this scenario assumes that the share of CPA for sub-Saharan Africa should increase from 36.6% in 2007 to 38.3% by 2011 to 40% by 2015; CPA for education increased from 7.7% of total CPA for Africa in 2007 to 8.8% in 2011 and 10% by 2015; CPA for basic education increased from 32.4% of CPA for the education sector of Africa in 2007 to 40% in 2015.
- **Base scenario, if no crisis:** The parameters used under this scenario are the same as the previous one, except that the GDP growth was set at 1.7% on average from 2008 to 2010, as if there were no crisis.
- **Pessimistic scenario:** The underlying assumptions of this scenario are that most performance indicators would be similar to those observed in 2007, including ODA/GNI ratio (0.28%).
- **Optimistic scenario:** This scenario was tried out in order to see what aid level should be required if the needs for African education development and EFA in particular are to be fully met. Some main findings deriving from this scenario were that, in order to fully meet the needs for EFA achievement in sub-Saharan Africa: (i) DAC countries should deliver on the UN target for 0.7% ODA/GNI; (ii) CPA Africa needs to increase to 40.8% of total CPA by 2011 and to 45% by 2015; (iii) the share of education in CPA for Africa should reach 11.3% in 2011 and 15% by 2015; and (iv) CPA for basic education should be 50% of CPA for education in 2015 from current level of 32.4%.

124. The subsequent aid gaps by scenario are illustrated in the following graphs. The details of the scenario are presented in Annex 5.

Graph 24: Aid gaps for SSA education (CPA)



Graph 25: Aid gaps for SSA EFA (CPA)



125. A few conclusions can be drawn, including the following:

- The past trends of aid to education (Base Scenario), even taking into consideration donors' announced aid commitments, are not sufficient.
- The 2007 level of aid is not desirable (Pessimistic Scenario) and if donors do not deliver on their Gleneagles commitment, the situation will be catastrophic.
- The desirable option is for DAC members to deliver on the UN aid target of 0.7% of GNI (Optimistic Scenario) and to increase the share of their aid to Africa.

4. Concluding remarks and further steps

126. This report has provided an analysis of the data raised through the “Quick Survey” launched by the UNESCO Education Sector (through its Section for Education Policy Analysis and Strategies - ED/ESB/EPS) in March 2009. Both the data collected and the analysis undertaken were put in the perspective of the on-going debate among the international community about the impact of the current crisis on the Millennium Development Goals. In doing so, UNESCO is fulfilling an important “watching” function which consists in alerting its governing bodies and development partners about potentially adverse effects of economic shocks on education, thus contributing to triggering useful policy debate and identifying appropriate responses.

127. The authors of the report are conscious of the obstacles and limits of an exercise that consists in collecting education finance data through questionnaires mailed to field offices: the small number of returned questionnaires, incomplete or imprecise data, difficulties inherent to translating the current local debate about education into quantitative evidence, the absence of visibility among local actors, etc. Raising evidence from the field in crisis times is always somewhat hazardous but it is believed that this bottom-up approach is preferable to a top-down attitude consisting in speculating about the potential effects of the crisis from Headquarters.

128. The main findings are presented in the previous sections. Beyond the usual and legitimate questioning of the data raised through the Quick Survey and the need to improve them, five indisputable lessons about the impact of the present crisis should be kept in mind:

- This crisis is different from earlier ones because it originated in advanced economies.
- The impact of the crisis is not yet fully reflected in education finance statistics.
- To ride out the crisis, increased budget deficits are favoured at the expense of budgetary orthodoxy, thus providing a more favourable background for the preservation of education budgets than in the past.
- Low-income countries, numerous in Sub-Saharan Africa, cannot afford additional public deficits and should, therefore, be given preferential access to increased ODA.
- There is a need to reconfirm the willingness of the international community to live by its commitments towards increased ODA, especially among bilateral donors.

129. At the time of writing this report, we observe that education budgets have been affected by the current crisis albeit to a varying degree. In several countries, education expenditure for 2009 declined in US dollar terms compared to 2008, especially in those economies where growth is expected to contract or to decline sharply in 2009. In other countries, although education budgets are expected to be resilient, the increase in 2009 will be weak and marginal in comparison with the steady increases recorded in previous years.

130. Most 2009 budget information given in survey returns are often projected estimates, therefore the actual expenditure that can be recorded at the close of or after the current fiscal year can show much lower figures than reported in country responses. In countries where school enrolments are on the rapid rise, the negative or marginal growth of education expenditure will actually mean reduction of per-pupil unit costs, cuts in school running costs and a further deterioration of the quality in education provision.

131. On a positive note, however, there is no clear sign that education budgets are being cut more than other sectors in most countries. This is demonstrated by the share of education expenditure in government finance that is being kept constant or even increased in many countries surveyed and across all the regions: it would increase in sixteen countries out of 25 for which data were available (five out of eight in AFR, four out of six in APA, two out of three

in ARB and five out of eight in LAC). Stimulus packages, including increased social transfers in the education sector, are being announced in not only developed countries, but also in many middle-income countries. It is also encouraging to note that in some countries surveyed, especially middle-income economies, education is increasingly seen as part of long-term investment programmes designed to sustain labour demand and restore economic growth. However, low-income economies lack the necessary fiscal capacity to afford or increase social programmes, therefore support by the international community is needed.

132. Past experience shows that the impact of the crises differed depending on development context. The negative effects were particularly stronger in poorer countries and households along with (i) decreasing public finance for education resulting in worsening learning and teaching conditions in public schools; (ii) increasing private enrolment as affluent families escaped low-quality public schools; (iii) budget cuts in educational spending stronger at primary and other EFA-related subsector levels than at higher education levels. Policy responses in crisis times should pay particular attention to increasing targeted support. Social transfers contemplated in several countries need further elaboration in order to protect and maintain access, participation and achievement of students at risk.

133. Despite the importance of the private costs for educational development in many countries, the report did not elaborate on this issue, partly as it is too early at this stage to collect data on the effects of the crisis on households' income. However, it is clear from the responses to the survey that many families in developing countries will suffer from the effects of the crisis such as rising unemployment or underemployment, shrinking remittances and increasing costs for schooling their children. All these may also affect social demand for education during and beyond the crisis. This and other issues that can help give a clearer picture of the impact of the crisis on education provision will be subject to continued investigation on the part of UNESCO.

Further steps

134. Only limited evidence about the changing structures of education budgets in crisis times could be raised through the Quick Survey, mostly in the form of short "narratives" giving a flavour of the on-going national debate about education. To gain a more detailed outlook of education budgets and, most important, about governments' changing policies and priorities, **national case studies** aimed at elucidating which expenditure may be cut in case of budgetary emergency, are envisaged in a limited number of countries. A major issue addressed by these studies should be countries' ability to achieve further progress towards EFA goals.

135. **UNESCO will continue to monitor the effects of the financial and economic crisis** on education provision and social demand for education in Member States, including how education expenditures are being reallocated across education levels, and whether enrolment in and quality in education are being impacted. This includes carrying out a literature review on research and studies done by other agencies as well as thorough analysis of the effects of past financial and economic crises on education.

Annexes

Annex 1: Quick survey on the impact of the crisis on educational spending

Status of the Quick Survey on the Impact of the Crisis on Educational Spending													
AFR				ARB									
No.	Country	Status	Date of Response	No.	Country	Status	Date of Response						
1	DR Congo	Half Complete	4/3/2009	1	Iraq	Complete	4/2/2009						
2	Cameroun	Complete	4/9/2009	2	Jordan	Complete	4/14/2009						
3	Senegal	Complete	4/28/2009	3	Lebanon	Complete	4/7/2009						
4	Ghana	Half Complete	4/17/2009	4	Palestine	Complete	4/3/2009						
5	Malawi	Almost Complete	4/16/2009	5	Sudan (North & South)	Complete	4/1/2009						
6	Botswana	Almost Complete	4/20/2009	6	Yemen	Almost Complete	4/22/2009						
7	Burkina Faso	Half Complete	4/21/2009	7	Egypt	Almost Complete	4/22/2009						
8	Guinea	Complete	4/22/2009	8	Qatar	Half Complete	5/11/2009						
9	Congo	Complete	4/1/2009	LAC									
10	Benin	Complete	5/4/2009	1	Ecuador	Complete	4/8/2009						
11	Zimbabwe	Almost Complete	5/8/2009	2	Haiti	Complete	4/8/2009						
12	Kenya	Complete	5/15/2009	3	St Vincent	Half Complete	4/4/2009						
13	Mali	Complete	5/27/2009	4	Mexico	Complete	4/9/2009						
APA				5	Chile	Complete	4/14/2009						
1	Cambodia	Complete	4/1/2009	6	Dominican Republic	Half Complete	4/22/2009						
2	Kazakhstan	Incomplete	4/2/2009	7	Costa Rica	Almost Complete	5/11/2009						
3	Kyrgyzstan	Incomplete	4/2/2009	8	Honduras	Half Complete	5/11/2009						
4	Lao PDR	Complete	4/3/2009	9	Salvador	Complete	5/13/2009						
5	Mongolia	Complete	4/3/2009	10	Nicaragua	Complete	5/22/2009						
6	Nepal	Complete	4/3/2009	11	Brazil	Half Complete	4/15/2009						
7	Pakistan	Complete	4/1/2009	EUR									
8	Singapore	Complete	4/3/2009	1	Armenia	Half Complete	5/14/2009						
9	Vietnam	Almost Complete	4/16/2009	<table border="1"> <tr> <td>Total responses</td> <td>51</td> <td></td> </tr> <tr> <td>Total complete</td> <td>25</td> <td></td> </tr> </table>				Total responses	51		Total complete	25	
Total responses	51												
Total complete	25												
10	Thailand	Half Complete	4/29/2009										
11	Bhutan	Almost Complete	5/5/2009										
12	India	Almost Complete	5/5/2009										
13	Sri Lanka	Half Complete	5/5/2009										
14	Vanuatu	Almost Complete	5/28/2009										
15	Tonga	Incomplete	5/28/2009										
16	Kiribati	Incomplete	5/28/2009										
17	Samoa	Almost Complete	5/28/2009										
18	Indonesia	Half Complete	6/12/2009										

The above table lists the countries for which UNESCO Field Offices (FOs) reported to the Quick Survey on the impact of the crisis on educational spending, as well as their status. Given the difficulty to obtain detailed data, the questionnaire was simplified in order to increase the response rate and to obtain some basic information that can enable a quick understanding of the situation. The integral part of survey questionnaire is as follows:

QUICK SURVEY ON THE IMPACT OF THE CRISIS ON EDUCATIONAL SPENDING

Country Name:	UNESCO Field Office:
Name of Respondent:	Name of FO Focal Point:
Respondent's Information:	Information on FO Focal Point:

1. Economic Development

	2007**	2008**	2009 (expected)
1.1. Gross domestic product (GDP)*			
1.2. Mid-year exchange rate: Local Currency Unit (LCU) to US\$			
1.3. GDP growth rate (%)			
1.4. Inflation rate (%)			

Note:

* Please indicate if the data provided is GNP instead of GDP, as well as what currency is used here. Specify if the amounts given here are in constant or current prices.

** The year given here is the fiscal year ending in the year specified above.

1.5. Please provide judgment on current situation and the main factors likely to affect the evolution of economic development in the country (e.g. changes in employment, prices of natural resources, export earnings, balance of payments, etc). Feel free to support the analysis with any facts and examples, including data and information from the media or official sources.

2. Government Finance

	2007	2008	2009 (expected)
2.1. Domestic revenues, excluding grants and loans			
2.2. Grants and loans (incl. budget support)			
2.3. Total resources (in principle, 2.1 + 2.2)			

Note:

Please specify (i) the currency used here; (ii) if domestic revenues reported here are the consolidated, nation-wide resources or concern the central government budget only; (iii) if possible, whether, the amounts reported are the expected or effectively spent ones for 2007 and 2008.

2.4. Please provide here any observations related to likely developments of government finance (e.g. if voted budgets have been or will soon be revised, sectors most likely to be affected, any signs of freeze on recruitment of civil servants, especially teachers, etc.).

3. Expenditure on Education

	2007	2008	2009 (expected)
3.1. Government expenditure on education (<u>both</u> recurrent and capital)			
3.2. Government <u>recurrent</u> expenditure on education			
3.3. Private expenditure on education (<u>both</u> recurrent and capital)			

Note:

Please specify (i) the currency used here; (ii) if government expenditure on education reported here is the consolidated, nation-wide spending or concern the central government budget on education only; (iii) the education levels reported (basic education only, or including higher education, non formal education, etc.); (iv) whether the expenditure reported here is the voted or implemented budget.

3.4. Please explain how the voted and implemented education budgets differed in 2007 and 2008 and how the voted budget for 2009 and afterwards is likely to be impacted by the current crisis (e.g. any discussions or signs on possible cuts of education budgets, the particular budget items likely to be affected, etc.)? Feel free to provide any facts and examples you deem relevant, drawn from press or official sources.

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4. Donor Support for Education (for countries receiving external support for education)*

	2007	2008	2009 (expected)
4.1. Bilateral agencies/countries			
4.2. Multilateral finance (including UN)			
4.3. Other financial support			

* Please specify (i) the currency in US\$; (ii) if the amounts given here are committed or effectively disbursed funds. You can insert more lines in the table if you want to provide more detailed, disaggregated information.

4.4. Provide any information on moves and signs of move in regard to donor support to education in country (e.g. any bilateral agencies intending to reduce, withdraw or suspend their support to education, etc.)

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Annex 2: Economic prospects – Country information

Sub-Saharan Africa (AFR)

Among the fourteen sub-Saharan African countries which provided data on GDP, twelve witnessed an increase in their GDP between 2007 and 2008, while eight of them are expected to experience a decline between 2008 and 2009. In only nine countries the expected 2009 GDP would be higher than the 2007 GDP. Overall, GDP growth in sub-Saharan countries during the period 2007-2009 is expected to be both more uneven and subject to significant differences in performance among countries, a situation that stands in sharp contrast with the remarkable overall performance of SSA over the past decade. Individual countries are affected in different ways, depending on their degree of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions.

In most SSA countries, there is a relatively big difference between total government revenue and domestic revenue, suggesting that they are largely dependent on ODA in the form of loans and grants.

Oil producing/exporting countries

- **Cameroon.** Real GDP growth rate increased to 4.1% in 2008, up from 3.4% in 2007, thanks to good results in the oil sector, ongoing infrastructure work, increased energy supply and reforms in agriculture, livestock and fisheries. It is expected to slow to 3.1% in 2009 due to the global recession pushing down prices and demand for the country's main commodities exports (chiefly oil, wood, cotton and rubber) and to electricity supply problems resulting from severe drought, but should pick up again in 2010 to reach 3.4%. Domestic revenue is expected to rise significantly from 19.3% in 2008 to 22% in 2009.
- **Ghana.** Real GDP growth was around 6.4% in 2008, slightly exceeding the 5.7% average in 2000-07. Growth is projected to dip in 2009 as export performance weakens on account of the global economic crisis, but then to pick up again in 2010 as Ghana begins to export crude oil.
- **Sudan.** The lasting period of steady growth and relatively low inflation experienced in past years is expected to abate somewhat. In 2008, the real GDP growth was 8.4 percent, but it is projected to slow down to about 5.0% in 2009 reflecting the impact of the global financial crisis. The exploitation of oil reserves and "the peace dividend" were the main drivers of this economic success.

Mineral producing/exporting countries

- **Democratic Republic of Congo (DRC).** A slowdown in overall economic growth is expected, due mostly to the fall in global prices for key DRC commodity/mineral exports. As a result, a number of mining companies have scaled down activities until commodity markets stabilize, causing a great threat to employment. In the mining province of Katanga, the closure of small mines and cutbacks in larger operations have seen an estimated 200,000 people lose their jobs in February 2009, with 1 million people indirectly affected. Two of the major sectors expected to drive DRC growth in 2009, i.e. infrastructure and mostly mining, have already been severely affected by the crisis. Most of the investment in infrastructure for the coming years is expected to be financed through the Chinese deal "Infrastructure against Mining".

Given the sharp decline in mineral prices, infrastructure investment at this scale can no longer be achieved or will have to be postponed. Export revenues are expected to decline significantly due to lower commodity prices and demand. Also, the current account surplus, recently sustained by booming commodity prices, is projected to turn into a deficit in 2009-10. The share of domestic revenue in GDP is expected to stagnate at a relatively low level (14%).

- **Guinea.** A similar slowdown is expected for a mining export country like Guinea where GDP growth reached 4.7% in 2008, but is not expected to exceed 3.8% in 2009 and 4.4% in 2010, as a result of the fall of commodity prices.
- **Botswana.** The country's growth rate, estimated at 3.9% in 2008, is expected to slowdown to 2.6% in 2009 and 2.9% in 2010. The decline in diamond production resulting from the anticipated decline in international demand for diamonds and falling international commodity prices, especially for copper and nickel, are the most important factors contributing to this slowdown. The other factors are inflationary pressures in 2008 resulting from rising oil, electricity and imported food prices,

Agro-based and diversified economies (Burkina Faso, Kenya, Malawi, Mali, Senegal)

- **Burkina Faso.** GDP growth for 2008 is estimated at 4.2% – short of earlier forecasts for 4.7% – but up from 3.6% in 2007. It is expected that the economy will continue to be resilient in 2009, with projected growth of 6% and 4.2% in 2010. This outcome is due to prudent economic policy and pragmatic and targeted structural measures undertaken by the Government. Growth will be driven by two factors — a decline in raw material prices, which should lead to a drop in production costs and thus spur investment, and a significant shift of revenue to rural areas due to specific support measures for agricultural production and small producers.
- **Kenya.** GDP growth slowed down to 2.6% in 2008, partly due to the post-election violence. The forecast is for higher growth rates of 5.0% and 4.3% in 2009-10, respectively. The expected recovery is due to positive growth recorded in different sectors including manufacturing, electricity and water, wholesale and retail trade, construction, and fishing.
- **Malawi.** Economic performance has been impressive in recent years, with GDP growing by 8.4% in 2008 compared to 7.9% in 2007. This success is mostly underpinned by a good performance by the agricultural sector. The country has also remained relatively insulated from the contagion effects of the global financial crisis thanks to its limited integration within the global financial system. However, Malawi is likely to suffer from the second-round effects of the crisis arising from declining demand for its commodities, coupled with a decrease in commodity prices. More significantly, the country experienced a substantial terms of trade shock in 2008 because of high fuel and fertilizer prices, which has led to fiscal vulnerabilities and put tremendous pressures on international reserves.
- **Mali.** The economic reforms initiated in 2008 softened the external shocks inflicted by the oil, food and financial crises. Economic growth, which had slowed in 2007 due to difficulties in the mining and cotton sectors, recorded a more pronounced decline in 2008, despite the cushioning effects of the Rice Initiative, a stepped-up privatization process and budgetary support from technical and financial partners. Real GDP growth was estimated at 3.6% in 2008. Growth is expected to pick up in 2009 and 2010, with GDP increasing by 4.2 and 5.1% respectively.
- **Senegal.** GDP growth slowed to 3.7% in 2008 (from 4.8% in 2007) mainly due to

more expensive imports, the global recession and the government's increasing budget problems, which led to further worrying delays in payments to private contractors. The real GDP growth in 2009 is forecast at only 3.5 percent, as a result of sharply lower world demand. Growth may rise slightly to 3.6% in 2010.

Asia and the Pacific (APA)

Overall, the sixteen economies of this region covered by the Survey are slowing down. In 2007-2008, GDP increased in all of them, but only in half of them in 2008-2009. Overall, 12 out of 17 countries (more than 2/3) are expecting their 2009 GDP to be higher than in 2007.

Contrasting situations can be observed among major countries: India will keep growing in 2009, while Pakistan and Thailand expect contraction of their GDP. Middle- and high- income countries (e.g. Singapore, Thailand, etc.) will be hit hardest, as a result of their direct exposure to international trade and financial flows, while low-income countries are more protected from the direct impact of the financial turmoil because their local financial markets experience only limited integration within global financial markets. On the other hand these low-income countries' economic structures expose them to the likely second round effects of the financial crisis, because their economies rely heavily on exports of limited commodities, remittances and tourism. Low prices of commodities, backtrack of remitted moneys and reduced earnings from tourism might lead to increased unemployment or underemployment, increasing vulnerability of the poor, reduced national income and even social unrest.

Middle-income countries in the region try to cushion the impact of the crisis on the most vulnerable portions of population by maintaining and, in some cases, expanding existing social transfers and "safety net" programmes, including school feeding and targeted support, to relieve poor families from increasing household burden for schooling their children. However, low-income countries will face greater challenges in helping the poor due to limited fiscal space, unless supported by external aid.

Most of them are highly dependent on external support to complement domestic revenue, such as loans and grants from outside, as non-domestic resources represent more than 30% of total government finance. Reduced financial aid (from high-income countries, hardest hit by the financial crisis) will have a devastating effect on government finance in some least developed countries.

Cambodia: This country has one of the weakest, slowest-growing economies in the region. It is led by the tourism sector which is experiencing difficulties with international arrivals falling by 10% a year, according to the Ministry of Tourism. According to the Phnom Penh Post, the garment industry has already shed tens of thousands of jobs in the past six months. The EIU (Economist Intelligence Unit) also reveals a 22% decrease in US imports from Cambodia in December 2008. The possibility of "global pandemic unrest" and social upheaval with disrupting consequences for the economy and the government is mentioned by the EIU, although such a possibility is denied by the Cambodian Government.

India: A steady decline in GDP growth from 9.7% in 2007 to 7% in 2008 and around 5% in 2009 is expected. Domestic revenue remained stagnant in 2007-2008 and may increase slightly in 2009. A less positive trend is the share of domestic revenue accounted for by foreign support which rose from 24% in 2008 to 52% in 2010, pointing to an excessive dependence of the Indian budget on foreign aid. Estimates of expected external assistance (grants and loans) for 2008-2010, broken down by donors and multilateral institutions and net of repayments, show a sharp increase in 2010, with the exception of bilateral aid received from the UK/DFID as grants and commodity assistance. This illustrates the capacity of India to muster foreign support for its development.

Lao PDR: Expansion of mining, hydropower, and services maintained robust economic growth in 2008, in a context where inflation accelerated initially, but slowed later in the year. There has been great concern about the potential impact on Lao PDR of the unfolding global financial crisis. In a meeting (Vientiane, November 2008), concern was expressed about the impact of the crisis on exchange rates and export revenues, and a possible subsequent decline in investment in the social sector. Concern was also raised about possible effects on the main pillars which are currently supporting economic growth in Laos such as tourism, the mining sector and agricultural commodities. There was also the discussion of the need for a fiscal stimulus package in order to combat some of the crisis' effects.

Mongolia: Mongolia has been hit hard by the global financial crisis. Mongolia's economy is highly unstable and vulnerable. Mongolia is the 20th most vulnerable economy out of 112 countries. It has limited ability to effect economies of scale, a high import content, export dependency and inability to influence international prices. Mongolian economy is highly dependent on copper export, prices of which (up to 39% in 2007) have been sharply dropping over the last 6 months. The budget has gone into a downward spiral and the latest estimations reveal that the fiscal deficit could reach 12% of GDP. If the recession continues at this pace, Mongolia will encounter a full-fledged balance of payment crisis. Economic growth in 2009, compared to 2008, is expected to slow down considerably: from 8.9% to 2.7%, in real terms. In addition, the crisis situation threatens macroeconomic stability, increasing unemployment and poverty, and halting progress toward the MDGs. Multilateral and bilateral help is urgently needed in the short term both for balance of payment support and budget support to finance the fiscal deficit.

Nepal: The GDP growth rate registered 2.6% in 2007 and 5.6% in 2008. The half-yearly evaluation of the 2009 fiscal year presents a gloomy picture. While presenting the budget the Ministry of Finance projected a growth rate of 7.0% and an inflation rate of 7.5 percent: however, based on the half yearly assessment, the Nepal Rstra (National) Bank has estimated a growth rate of 3.8% and an inflation rate of 11% for 2009. Due to conflict and lack of employment opportunities, many Nepali youth and adults have been working in other countries. Some of them have begun returning home, and many more are expected to return in the near future, heavily affecting remittance revenues. The country has not been able to implement the development activities as planned in the annual workplan and budget. The total capital expenditure during the six-month period is only about 8 billion rupees against the set target of 91 billion rupees, resulting in a huge cash balance of 28 billion rupees in the national treasury as of February 2009.

Pakistan: The GDP growth has steadily declined from 6.8% in 2007 to 5.8% in 2008 and is expected to further decline to 2.5% in 2009. The country is facing the challenge of stabilizing the economy as external shocks (oil and commodity prices, food shortages) and internal political, law and order situations have led to major macroeconomic imbalances. The government has launched an economic stabilization programme, supported by IMF under a US\$ 7.6 billion Stand By Arrangement, which is expected to bring some stability or improvement. Nonetheless, any complacency on the part of the government can destabilize the economy again. In addition, political instability within the government, growing militancy, corruption, and bad governance remain the main threats to economic growth and development in Pakistan.

Singapore: After a high economic growth (7.8%) in 2007, the country moved closely in line with the global business cycle, growth decelerated during 2008 on a year-on-year basis (1.1%) and contracted in the fourth quarter. The economy is forecast to shrink in 2009 (-5%), before bouncing back in 2010. A significant fiscal stimulus package will help cushion the severity of the recession, although in the highly open economy much of the stimulus will leak abroad. Cushioning externally-induced macroeconomic volatility is a particularly difficult challenge in a city-state. Singapore has higher trade dependence than other Asian

economies and this gap has increased in recent years. Furthermore, as a financial centre, it will suffer more than most economies from the global financial crisis and cuts in staffing at banks and brokerages. Moreover, it is a sub regional headquarters for multinational companies, many of which are trimming operations. Irrespective of the uncertainty surrounding the global outlook for this year, this economy is seen contracting substantially in 2009.

Thailand: Political disruptions undermined the economy in 2008, hurting government expenditure and private investment. The economy is expected to contract in 2009. Expansionary monetary and fiscal policies will help to a degree, but the Government may well need to do more to ensure that growth is sustained after its expected resumption next year. The key short-term challenge is to implement the stimulus package effectively to support growth. That requires the Government to improve the disbursement rate of planned expenditure. It also needs to accelerate rollout of public infrastructure projects, which have fallen behind schedule during the past 3 years of political turbulence. Thailand could face two other main challenges, depending on the duration of the global slowdown. Firstly, coping with relatively high unemployment for a prolonged period could test policymakers, and social stability. There is a need to consider expanding social safety nets both as a short-term response and over the longer term. Secondly, while the financial system is sound, a prolonged economic slowdown could lead to a significant rise in nonperforming loans.

Pacific Islands: Similar phenomena are taking place in most Pacific Islands. They suffered from drastic increases in inflation due to the rise in prices of imported food and fuel in 2008 (ADB Outlook 2009). There are reports of a reduced workforce. There was a decline in remittances and tourism receipts fell drastically in all respondent countries of the Pacific. The roll-on effects on the families and their abilities to provide schooling for their children, let alone a better opportunity, are damaging. It is also envisaged that the overall budget deficit is expected to widen from 3.2% of GDP in 2008 (ended 30 June 2008) to 5.5% of GDP in 2009, while the economy is forecast to contract by about 1% this year in Samoa, by 2.0% in 2009 and by 0.6% in 2010 in Tonga.

Arab States region (ARB)

The Quick Survey yielded data on eight MENA countries which can be categorized in the four groups often used by development agencies to assess economic performance in MENA countries:

GCC countries, that is oil exporters with small populations: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates

These countries are characterized by a big capacity to absorb economic shocks because their financial position is exceptionally strong, cushioning them against the initial impact of the global financial crisis. As oil prices began to decline in mid-2008, GCC countries experienced a significant drop in their revenues and as a consequence a lower growth rate in 2009 than the previous year. On the whole, the impact of the crisis on GCC is not a cause for alarm, but an economic slowdown in GCC will have a direct impact on non-oil-exporting countries with strong linkages with GCC through layoffs of non-GCC nationals, declining remittances to non-GCC countries and ODA flows originating in GCC. In this part of the world, a trans-national labour market has been developing fast in recent decades and non-oil-producing economies are highly sensitive to economic downturn in oil-producing economies.

- **Qatar.** A typical example is Qatar whose GDP is supposed to grow at an outstanding 18% in real terms in recent years. Actually, education expenditure in Qatar increased

in 2008 relative to the previous year in absolute value and as a share of the domestic revenue as well. Latest available data (2005) show that public expenditure on education accounts for about 20% of total government spending. Also in 2005, public expenditure on education is about 3% of GDP. Of this total public spending on education, about 88% is allotted for current expenditure. It is reported that the new budget for 2009/2010 foresees about 26% of 2008 GDP. While a large part of the expenditure budget will be allocated on infrastructure projects, education spending would also likely increase in 2009 and in coming years. This is in keeping with the government's commitment to its goals embodied in the Qatar National Vision 2030 (QNV 2030).

- **Saudi Arabia:** the Saudi budget is expected to go into deficit—possibly as high as 11-12% of GDP—for the first time since 2002. Economic growth has decelerated from about 4% in 2008 to almost zero in 2009. Even though the Saudi economy was not overly exposed to the US mortgage or derivatives markets, sovereign Saudi wealth funds and other holders of equities suffered large losses. As consequence, the Saudi stock market experienced a big decrease. In the twelve-month period ending in February 2009, the Saudi stock market fell by 49 percent.
- **UAE:** Between July and December 2008, the Organization of the Petroleum Exporting Countries (OPEC) saw the price of oil fall by 70% from a peak of just over \$130 per barrel to under \$40 per barrel. In September 2008, with the collapse of Lehman Brothers and the turmoil on Wall Street, the stock market in UAE fell dramatically, Dubai experienced its worst decline at that time and its stock market slumped by 72%. These losses have reduced consumption and discouraged investment.

Oil exporting countries with large populations relative to their oil wealth: Algeria, Iraq, Iran, Libya, and Syria

These countries entered the global financial crisis with weaker fiscal and external positions than GCC countries and their fiscal and current account surpluses are expected to show a sharp decline in 2009 as fiscal revenues and trade surpluses contract due to lower oil prices. As governments struggle to meet long-term social commitments, such as subsidies and income support programmes, countries with sufficient reserves are drawing on them (e.g. Algeria), while others with limited reserves are implementing fiscal contraction measures (e.g. Iran). Economic growth is projected to decline though not as markedly as in GCC countries.

- **Iraq.** Iraq will experience a budget cut in 2009 to \$58 billion, that is around \$15 billion less than the 2008 budget. While the total resources declined, the Iraqi government decided to keep the absolute amount allocated to education constant in the next three years (about \$600 million) which corresponds to an increasing share of education expenditure of total resources since these latter are decreasing.
- **Syria:** As with the other Arab countries, Syria has experienced rising food prices as well as increases in other costs in the first half of 2008, which badly hit the poor. Consumer prices rose by an annual rate of 25% or more during the early months of the year. Food prices rose even faster. The poor had no financial reserves to fall back on. On the other hand, the Syrian government announced that the budget deficit officially planned for 2009 is now \$5.3 billion, equal to about 9.25% of forecast GDP which means a potential cut in the budget allocated to education by freezing some recruitment or other investment previously planned for the education sector.

Non-oil exporting countries with strong linkages with GCC: Jordan, Lebanon, Yemen and Palestine

These economies will be affected through decreasing remittances, FDI and tourism from GCC countries as well as and increased unemployment resulting from laid-off workers in GCC labour markets returning their home countries.

- **Jordan.** GDP growth is expected to decline from 6 to 4% over 2007-2009, following a five-year period of steady growth at an annual rate of 5%. Remittances declined in 2008 and are expected to decline even more in 2009. The country is facing a serious unemployment problem particularly among youth with an unofficial unemployment rate of 30% (the official rate is about 12.9%). In addition, export revenues have dropped considerably due to reduction in global commodity prices. Tourism and other service incomes have diminished along with domestic consumer confidence. Faced with stagnating revenue, the government has put a freeze on additional recruitment of civil servants while pressure is mounting to increase civil servant salaries. Reliance on foreign support to complement domestic revenue is high (around 15% of total government revenue).
- **Lebanon.** The GDP growth rate recorded in 2007 and 2008 (around 8%) is expected to be halved in 2009 (3-4%), as the global downturn in the Gulf region will affect remittances, FDI and deposit inflows. In 2007 remittances reached about \$5.5 billion, equivalent to about \$1,600 per capita. Lebanon ranked eighth among the top ten remittance recipients in 2006, which corresponds to 22.8% of GDP. The real economy continues to show considerable resilience and the domestic financial system has no direct exposure to toxic financial products. No visible impact on government revenues is felt as yet but the 2009 public budget is likely to run a considerable deficit due to considerable pressure on the wage bill which is expected to increase by 33%.

Diversified economies with strong linkages to European and OECD countries: Morocco, Tunisia and Egypt

These countries began to feel the impact of the crisis on their economies as early as the last quarter of 2008, as recession spread across Europe and other export markets. Export growth is projected to remain low throughout 2009 in all three countries, affecting employment in export-oriented SMEs.

- **Egypt.** No estimate of GDP growth for 2009 was reported in the survey, but quarterly growth fell to 4.1% in December 2008 (compared to 7.7% previous year) and job creation fell by 30% (unemployment rose to 8.8%). In the second half of 2008, Egypt suffered a 35% fall in Suez Canal revenues as a result of the slowdown in international trade. Tourism revenues have also fallen; this will reduce GDP growth by several percent. As a result of the crisis, Egypt has delayed increasing energy prices, designed to cut the subsidy bill that reached \$15 billion in June 2008. The government is wary of anything that raises prices after the 18% increase in 2008. As of early 2009, inflation is forecast at about 8 percent. In addition, the stock market realized a drop of 61% until the first quarter of 2009, which shifted the IMF estimates in its reviewed version to expect a decrease of the economic growth to be about 3.5% for 2009 compared with 7% in 2008. Due to the cancellation of several construction projects in GCC and the resulting layoffs, remittances are likely to decline as migrant workers are returning home. But the prospects for export of natural gas are bright.
- **Sudan North:** This country has experienced a continuous decline in its GDP growth from 10% in 2007 to 7% in 2008 and 6% in 2009 according to the latest forecasts.

This situation is mainly due to the drop in oil prices, the economic embargo and the low level of foreign investment.

- **Morocco:** Morocco's government increased spending on social projects to mitigate the effects of the global financial crisis. In 2008, thanks to subsidies, inflation was kept at an officially-estimated rate of about 4%. However, even that rate provoked unrest and demand for wage raises. Despite government measures, unemployment has increased and is forecast to exceed 10% in 2009, while GDP growth is expected to slow to less than 3% from more than 5% in 2008.

Latin America and the Caribbean (LAC)

The Quick Survey yielded significant results for nine countries which can be divided in two groups: a first group which will experience declining GDP in 2009 (Mexico, Ecuador and Chile) and a second group where GDP growth rates will slow down significantly (Saint Vincent, Haiti, Nicaragua, the Dominican republic, and Costa Rica). There is no doubt that the financial crisis is severely hitting the middle-income countries of this region which mainly comprises open market economies, exposed to capital flows and highly sensitive to commodity prices - and in many cases dependent on the US economy. The crisis is reported to have impacted the economies of the LAC region from the second semester of 2008 with more visible consequences in 2009.

A strong decrease in internal and external demand during the last trimester of 2008 and the first trimester of 2009 negatively impacted the Latin American economies. CEPAL estimated the impact of the financial crisis on the LAC GDP at -1.7% in 2008; this drop was mainly driven by a decrease in international commercial exchanges and a drop in remittances, both key elements of the development of the Latin Americas economies in the 5 past years.³³

While the economic growth rates expectations are relatively low for 2009, the domestic revenue as percentage of the GDP in most of the Latin American countries is expected to remain constant or, even, in the best cases, increase. Expansive fiscal policies are put in place by increasing social spending while decreasing the fiscal pressure for supporting private spending. Some other countries have opted for strengthening fiscal pressure, for instance 6.4% of GDP in Argentina.

Most of the Latin American countries covered by the Survey are conscious of the need to restore aggregate demand by implementing vigorous counter-cyclical measures reflected in increased government spending. The overall objective is to reduce the adverse effect of the crisis on the level of employment. In doing so, their national responses are very similar to those of developed countries. This illustrates a radical difference with the crises of the past when, faced with diminished fiscal revenue as a result of slow growth and budget deficits, most governments opted for a reduction of social support programs and the size of the State, often by laying off civil servants, and for a reliance on private sector stimulus packages. Presently, the public sector plays a central role in policy responses to the crisis, relying on countercyclical measures in the form of support to the public sector. The prognosis for the social sectors, education and health, is less grim than in the past as public spending is now seen as an effective defence against the financial crisis and a tool to avoid a massive social crisis. Long term investments on education and capital spending (infrastructure) should be thought of as long-term policies for improving human capital and ensuring economic recovery.

³³<http://www.cepal.org/cgibin/getProd.asp?xml=/prensa/noticias/comunicados/1/36221/P36221.xml&xml=/prensa/tpl/p6f.xsl&base=/tpl/top-bottom.xsl>

In Brazil, for instance, one counter-cyclical measure of social protection is the "Bolsa Familia" Program that gives financial support to 11.1 million Brazilian families for children's education and health. Other LAC countries financing social programmes are Colombia (Increasing coverage of the Families in Action Program), Chile (monetary allowances and benefits for education and health services to poor families), Costa Rica (15% increase of non-contributory pension scheme), El Salvador (Solidarity Network and Alliance for the family), Dominican Republic (Solidarity).

To implement these social policy responses to the crisis, most of the LAC countries require external financing support, seeking the assistance of international financing agencies like the Inter-American Development Bank (IDB). Currently the IDB has increased its financial support to four countries of the region, among which Honduras and Nicaragua (Up to \$485 million per year will be made available in 2009 and 2010 to help mitigate the impact of the current crisis). This financial support acknowledges the importance of investing in human capital for increasing productivity and therefore international competitiveness through a strong system of social and labour protection³⁴.

Mexico. Unsurprisingly, the Mexican economy is most affected by the financial crisis. It is heavily dependent on the US economy. Mexico's economy is wobbling mainly because of the financial problems in the neighbouring US. Unemployment is up, companies have put their plans on ice, the government has stopped putting out tenders, remittances from migrants are down, and exports have shrunk. In addition, oil prices have gone down which is going to further impact government revenue.

Government revenue is expected to drop dramatically (-25.23% in nominal terms) as a result of declining government tax incomes and oil royalties. The government launched a program for sustaining economic growth and supporting employment during the second semester 2008 and reforms for increasing public spending on infrastructures and public support to the production of small and medium-sized businesses. The plan enjoys the support of the Employers' Confederation which has urged the authorities to put into effect counter-cyclical measures involving large amounts of public spending on infrastructure development.

Mexico has received \$600 million to fight poverty through human development programmes aiming at improving nutrition, health and education among the poor nationwide and expanding their coverage in urban areas. The loan was granted for a 25-year term.

Ecuador. Ecuador's economy depends heavily on petroleum production and exports, along with exports of agricultural commodities and seafood. Ecuador's GDP growth is supposed to be negative -2.79% (survey data) or nil (CEPAL estimates) in 2009, as a result of the drop in oil prices and falling remittances. Unemployment is high, informal activity is spreading and becoming more and more visible. Government income is expected to be dramatically affected.

Fiscal policies for supporting the productive sector and strengthening the financing system have been adopted. Furthermore, bilateral and multilateral negotiations are on-going to preserve government revenue by filling the gaps with loans. For instance, Ecuador is negotiating a credit of \$500 Million with the IDB to finance its fiscal policy and is currently waiting for the approval of its project of tax reform.

Chile. This is probably one of the most open economies of the LAC region, linked by free trade treaties with the most important world economies. It is highly affected by the financial

³⁴ "Boletín CEPAL / OIT, Coyuntura laboral en América Latina y el Caribe". Consulted on 18 June 2009 on: http://www.cepal.org/publicaciones/xml/7/36147/2009-298-Boletin_CEPAL-OIT-WEB.pdf

crisis as dominant economies have been shrinking since the second semester of 2008. Vital sectors such as mining, construction, services and fisheries are affected. On one hand, exports revenue suffered a sharp drop as a result of falling copper prices; but on the other hand, Chilean imports are favoured as a result of cheaper oil prices. The unemployment rate is up.

Government revenue is expected to fall sharply in 2009 (-18.43% in nominal terms) but social spending will be preserved thanks to countercyclical policies that are foreseen in the 2009 government budget. An increase of 7.8% in social spending (representing 69% of total spending) is foreseen in the National Plan. A package of short term measures and structural reforms equivalent to 2.8% of GDP is implemented to support GDP growth and employment.

Saint Vincent, Nicaragua and the Dominican Republic. In this group, GDP growth rates are expected to considerably slow down. In Nicaragua, the economy has suffered from a slowing down of its exports and its financial incapacity to import intermediary goods critical for domestic production. The central government is planning to increase social expenditure.

Costa Rica and Haiti. Both countries belong to a group where GDP growth is expected to decline slightly, from a high level in Costa Rica and from an already very low level in Haiti. The decline in Costa Rica GDP growth from 7.7% to 6.6%, in nominal terms is not dramatic, but the case of Haiti is different. In 2008, this country went through severe problems not directly linked with the financial crisis. Natural catastrophes and food crises tremendously affected the Haitian economy and population in 2008. As a result, it is hard to distinguish between the intractable issues connected with acute, lasting poverty resulting from a very slow, irregular pattern of development and the macro-economic deterioration due to the current financial crisis. Because of a large informal economy, government tax income is low and the fragile banking system is not exposed to international turmoil. Haiti is implementing support policies for strengthening productive development, mainly in the agriculture sector and subsidies programs for food and transport expenditures.

External direct support to Haiti budget is known to be considerable as well as other types of donor support to Haitian socio-economic development (65% of total domestic revenues in 2007, 60% expected in 2009). While bilateral donors contribute 64% of the total aid provided to Haiti, multilateral donors and the UN in particular account for 36%. The international conference that was held in April 2008 for determining the level of external support to the Haitian budget did not show any trend of donor withdrawal. However, the challenge remains to match the amounts pledged with the actual disbursements. Up to now, a low disbursement rate is reported in the field.

Annex 3: Assumptions on ODA as a percentage of Gross National Income (GNI)

	2007	2008	2010	Assumptions
Austria	0.49%	0.42%	0.51%	0.51% in 2010
Belgium	0.43%	0.47%	0.70%	0.7% in 2010
Denmark	0.81%	0.82%	0.80%	Minimum 0.8%
Finland	0.40%	0.43%	0.51%	0.51% in 2010
France	0.39%	0.39%	0.51%	0.51% in 2010 and 0.7% in 2015
Germany	0.37%	0.38%	0.51%	0.51% in 2010
Greece	0.16%	0.20%	0.35%	0.35% in 2010
Ireland	0.54%	0.58%	0.60%	0.6% in 2010 and 0.7% in 2012
Italy	0.19%	0.20%	0.51%	0.51% in 2010
Luxembourg	0.90%	0.92%	0.93%	0.93% in 2010 and 1% in following years
Netherlands	0.81%	0.80%	0.80%	Minimum 0.8%
Portugal	0.19%	0.27%	0.51%	0.51% in 2010
Spain	0.41%	0.43%	0.56%	0.5% in 2008, 0.56% in 2010 and 0.7% in 2012
Sweden	0.93%	0.98%	1.00%	1.00%
United Kingdom	0.36%	0.43%	0.56%	0.56% in 2010-11 and 0.7% in 2013
DAC EU Members, Total	0.39%	0.42%	0.56%	
Australia	0.30%	0.34%	0.37%	Announcement to reach an ODA/GNI target of 0.5% by 2015-16, with interim targets of 0.35% in 2009-10, 0.37% in 2010-11 and 0.38% in 2011-12.
Canada	0.28%	0.32%	0.34%	Double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms. The Canadian authorities estimate ODA (composed in large part from the IAE) will be 5.1 billion Canadian dollars in 2010. The ODA figure shown here is adjusted for inflation and converted to USD at the 2008 exchange rate.
Japan	0.17%	0.18%	0.28%	Japan intends to increase its ODA by USD 10 billion in aggregate over the five years 2005-2009 compared to 2004, estimated to USD 4.39 billion extra in 2009, compared to 2004, and supposing that the volume of net ODA in 2009 will be maintained. No adjustment is made for inflation.
New Zealand	0.27%	0.30%	0.35%	Estimates of ODA/GNI ratio of 0.35% in 2010
Norway	0.95%	0.88%	1.00%	1% over 2006-09
Switzerland	0.37%	0.41%	0.40%	ODA to 0.5% of GNI by 2015. The ODA/GNI ratio of 0.40% will be maintained from 2009 onwards.
United States	0.16%	0.18%	0.20%	The United States does not issue or approve forecasts on projected ODA.
DAC Members, Total	0.28%	0.30%	0.39%	

Source: OECD, Results of the 2009 DAC Survey on donors' forward spending plans, 28 April 2009

Annex 4: Projections of Country Programmable Aid – Base Scenario

US\$ million, 2007 \$ constant*	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Bilateral DAC ODA									
GNI DAC	37,344,962	37,507,553	35,894,729	35,858,834	36,615,455	37,721,242	38,849,107	39,878,608	40,935,392
GNI growth (DAC)	2.70%	0.90%	-4.30%	-0.10%	2.11%	3.02%	2.99%	2.65%	2.65%
ODA/GNI	0.28%	0.30%	0.34%	0.37%	0.38%	0.39%	0.40%	0.40%	0.41%
ODA total	103,487	113,999	122,849	133,632	139,049	147,735	155,303	160,838	166,557
ODA bilateral	92,152	101,513	109,393	118,996	123,819	131,554	138,293	143,221	148,314
CPA total	75,295	77,087	79,962	84,268	86,485	90,809	95,349	100,117	105,122
CPA bilateral	56,042	57,376	59,516	62,720	64,370	67,589	70,968	74,517	78,243
General budget support 2007 \$ const;	2,331	2,387	2,476	2,609	2,678	2,812	2,952	3,100	3,255
General budget support as % of CPA	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Total aid to country education	4,209	4,548	4,964	5,492	5,904	6,479	7,098	7,762	8,475
CPA Education	3,743	4,070	4,469	4,970	5,368	5,917	6,508	7,142	7,824
CPA Education (% of total CPA)	6.7%	7.1%	7.5%	7.9%	8.3%	8.8%	9.2%	9.6%	10.0%
% of general budget support for education	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total aid to country basic education	2,241	2,429	2,660	2,952	3,184	3,506	3,853	4,227	4,630
CPA Basic education specific	1,445	1,579	1,741	1,945	2,110	2,336	2,581	2,845	3,130
CPA Basic education (% of CPA education)	38.6%	38.8%	39.0%	39.1%	39.3%	39.5%	39.7%	39.8%	40.0%
Level unspecified	1,124	1,222	1,342	1,493	1,612	1,777	1,955	2,145	2,350
Level unspecified as % of CPA education	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
2. Multilateral ODA									
CPA multilateral*	19,253	19,711	20,446	21,547	22,114	23,220	24,381	25,600	26,880
General budget support	2,919	2,988	3,100	3,266	3,352	3,520	3,696	3,881	4,075
General budget support as % of CPA	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
Total aid to country education	2,140	2,287	2,473	2,711	2,891	3,149	3,426	3,723	4,041
CPA Education	1,556	1,690	1,853	2,058	2,221	2,445	2,687	2,947	3,226
CPA Education (% of total CPA)	8.1%	8.6%	9.1%	9.6%	10.0%	10.5%	11.0%	11.5%	12.0%
% General budget support for education	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Total aid to country basic education	973	1,062	1,173	1,314	1,432	1,594	1,772	1,967	2,182
CPA Basic education specific	423	486	563	658	746	861	989	1,131	1,290
CPA Basic education (% of CPA education)	27.2%	28.8%	30.4%	32.0%	33.6%	35.2%	36.8%	38.4%	40.0%
Level unspecified	516	553	599	658	701	762	827	896	968
Level unspecified as % of CPA education	33.1%	32.7%	32.4%	32.0%	31.6%	31.2%	30.8%	30.4%	30.0%

US\$ million, 2007 \$ constant*	2007	2008	2009	2010	2011	2012	2013	2014	2015
3. Total aid to country education sector	6,349	6,835	7,437	8,204	8,795	9,629	10,524	11,485	12,516
of which basic education	3,213	3,491	3,833	4,266	4,616	5,100	5,625	6,194	6,812
% Basic education	51%	51%	52%	52%	52%	53%	53%	54%	54%
4. Africa, South of Sahara (bilateral+multilateral)									
CPA sub-Saharan Africa	27,587	28,568	29,969	31,937	33,140	35,179	37,339	39,626	42,049
as % of total CPA	36.6%	37.1%	37.5%	37.9%	38.3%	38.7%	39.2%	39.6%	40.0%
General budget support	3,294	3,411	3,578	3,813	3,957	4,200	4,458	4,731	5,020
General budget support as % of CPA	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Total aid to country education	2,726	2,958	3,190	3,492	3,720	4,051	4,408	4,794	5,209
CPA Education	2,068	2,275	2,474	2,729	2,929	3,211	3,517	3,847	4,205
CPA Education as % of total Africa CPA	7.5%	8.0%	8.3%	8.5%	8.8%	9.1%	9.4%	9.7%	10%
Of which bilateral	1,512	1,669	1,821	2,015	2,169	2,386	2,621	2,877	3,154
Share of bilateral (%)	73%	73.4%	73.6%	73.8%	74.1%	74.3%	74.5%	74.8%	75%
Total aid to country basic education	1,576	1,718	1,870	2,067	2,223	2,444	2,685	2,949	3,237
CPA Basic education specific	883	986	1,094	1,231	1,347	1,505	1,680	1,872	2,084
CPA Basic education (% of CPA education)	32.4%	33.3%	34.3%	35.2%	36.2%	37.1%	38.1%	39.0%	40.0%
Level unspecified	726	782	837	909	961	1,038	1,120	1,208	1,302
Level unspecified as % of CPA education	26.6%	26.4%	26.2%	26.0%	25.8%	25.6%	25.4%	25.2%	25.0%
5. Aid gap for sub-Saharan Africa ED (over domestic resources)									
Education financing gaps (DRC, Nigeria, Sudan)	1,371	1,599	1,999	2,565	3,092	3,879	4,902	6,425	8,298
of which: EFA	1,021	1,302	1,776	2,226	2,669	3,100	3,596	4,198	5,268
Education financing gaps (all sub-Saharan)	4,113	4,798	5,996	7,694	9,277	11,636	14,706	19,275	24,893
of which: EFA	3,062	3,905	5,327	6,679	8,008	9,300	10,787	12,595	15,804
as % of total CPA for SSA	11%	14%	18%	21%	24%	26%	29%	32%	38%
6. Aid gap for sub-Saharan Africa ED (minus ODA support)									
Education sector	1,387	1,840	2,807	4,202	5,557	7,585	10,298	14,481	19,684
Gap%CPA	51%	62%	88%	120%	149%	187%	234%	302%	378%
Basic education	1,486	2,187	3,457	4,612	5,785	6,856	8,101	9,645	12,567
Gap%CPA	94%	127%	185%	223%	260%	281%	302%	327%	388%
as % of total CPA for SSA	5%	8%	12%	14%	17%	19%	22%	24%	30%

Note:

* CPA 2007 is average 2005-2007 commitment; General budget support is average 2005-2007

** CPA multilateral = gross disbursements

Annex 5: ODA – Aid to education globally and for sub-Saharan Africa (4 Scenarios)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Base scenario									
Global, Aid to country education sector									
Total aid to country education	6,349	6,835	7,437	8,204	8,795	9,629	10,524	11,485	12,516
Total aid to country basic education	3,213	3,491	3,833	4,266	4,616	5,100	5,625	6,194	6,812
Africa, South of Sahara									
Total aid to country education	2,726	2,958	3,190	3,492	3,720	4,051	4,408	4,794	5,209
Total aid to country basic education	1,576	1,718	1,870	2,067	2,223	2,444	2,685	2,949	3,237
Aid gap for sub-Saharan Africa education									
Education sector financing gaps (over domestic resources)	4,113	4,798	5,996	7,694	9,277	11,636	14,706	19,275	24,893
Basic education sector financing gaps (over domestic resources)	3,062	3,905	5,327	6,679	8,008	9,300	10,787	12,595	15,804
Education sector financing gaps (minus prospective CPA)	1,387	1,840	2,807	4,202	5,557	7,585	10,298	14,481	19,684
Basic education sector financing gaps (minus prospective CPA)	1,486	2,187	3,457	4,612	5,785	6,856	8,101	9,645	12,567
% Education sector financing gaps (minus prospective CPA)	51%	62%	88%	120%	149%	187%	234%	302%	378%
% Basic education sector financing gaps (minus prospective CPA)	94%	127%	185%	223%	260%	281%	302%	327%	388%
Base scenario, if no crisis									
Global, Aid to country education sector									
Total aid to country education	6,349	6,890	7,883	8,351	9,077	10,056	11,004	11,844	12,730
Total aid to country basic education	3,213	3,519	4,063	4,343	4,764	5,326	5,881	6,388	6,928
Africa, South of Sahara									
Total aid to country education	2,726	2,981	3,381	3,555	3,839	4,231	4,609	4,944	5,298
Total aid to country basic education	1,576	1,732	1,982	2,104	2,294	2,552	2,808	3,041	3,292
Aid gap for sub-Saharan Africa education									
Education sector financing gaps (minus prospective CPA)	1,387	1,817	2,615	4,139	5,437	7,405	10,097	14,331	19,595
Basic education sector financing gaps (minus prospective CPA)	1,486	2,173	3,345	4,575	5,714	6,748	7,979	9,553	12,512
% Education sector financing gaps (minus prospective CPA)	51%	61%	77%	116%	142%	175%	219%	290%	370%
% Basic education sector financing gaps (minus prospective CPA)	94%	125%	169%	217%	249%	264%	284%	314%	380%
Pessimistic scenario									
Global, Aid to country education sector									
Total aid to country education	6,349	6,377	6,103	6,097	6,225	6,413	6,605	6,780	6,960
Total aid to country basic education	3,213	3,231	3,095	3,095	3,164	3,263	3,364	3,457	3,552
Africa, South of Sahara									
Total aid to country education	2,726	2,770	2,681	2,708	2,796	2,912	3,031	3,145	3,263

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total aid to country basic education	1,576	1,598	1,544	1,557	1,604	1,668	1,733	1,795	1,859
Aid gap for sub-Saharan Africa education									
Education sector financing gaps (minus prospective CPA)	1,387	2,028	3,316	4,986	6,481	8,725	11,675	16,130	21,630
Basic education sector financing gaps (minus prospective CPA)	1,486	2,307	3,784	5,122	6,403	7,632	9,053	10,799	13,945
% Education sector financing gaps (minus prospective CPA)	51%	73%	124%	184%	232%	300%	385%	513%	663%
% Basic education sector financing gaps (minus prospective CPA)	94%	144%	245%	329%	399%	458%	522%	602%	750%
Optimistic scenario									
Global, Aid to country education sector									
Total aid to country education	6,349	7,984	9,299	11,066	13,236	15,756	18,541	21,540	24,822
Total aid to country basic education	3,213	4,078	4,792	5,755	6,946	8,345	9,910	11,618	13,510
Africa, South of Sahara									
Total aid to country education	2,726	3,725	4,605	5,791	7,292	9,108	11,213	13,595	16,313
Total aid to country basic education	1,576	2,186	2,761	3,552	4,580	5,862	7,398	9,197	11,316
Aid gap for sub-Saharan Africa education									
Education sector financing gaps (minus prospective CPA)	1,387	1,073	1,391	1,902	1,985	2,529	3,493	5,680	8,580
Basic education sector financing gaps (minus prospective CPA)	1,486	1,719	2,566	3,127	3,428	3,438	3,389	3,398	4,488
% Education sector financing gaps (minus prospective CPA)	51%	29%	30%	33%	27%	28%	31%	42%	53%
% Basic education sector financing gaps (minus prospective CPA)	94%	79%	93%	88%	75%	59%	46%	37%	40%

Annex 6: Public spending on education in Armenia

After rapid economic development in recent years, culminating in an annual 13.8% growth in 2007, Armenian GDP growth rate started to slow down in 2008 (6.8%) and its income is expected to contract by 3% in 2009.

Total state budget and state expenditure on education for 2006-2009 (US\$ million)

	2006		2007		2008		2009
	Adopted	Actual	Adopted	Actual	Adopted	Actual	Adopted
State expenditure	1,148.1	1,156.7	1,564.9	1,855.4	2,528.2	2,648.9	3,113.2
Recurrent	788.3	857.2	1,124.5	1,214.9	2,014.6	2,344.8	2,538.0
Capital	319.2	256.5	380.4	572.5	513.6	304.1	575.2
Loans minus repayment	40.6	43.0	60.0	68.0	-	-	-
Education expenditure	182.6	160.1	239.5	259.4	318.9	338.3	417.9
Recurrent	133.3	135.1	187.8	191.7	235.4	245.2	323.5
Capital	49.3	25.0	51.7	67.6	83.5	93.2	94.4
Recurrent, change from previous year	na	na	41%	42%	25%	28%	37%
Capital, change from previous year	na	na	5%	171%	62%	38%	13%

Trends in government revenue as well as public expenditure on education have been reflective of the economic growth: Educational expenditure increased by 42% in 2007, while the growth was still strong in 2008, but to a lesser extent than in previous years. The increase in capital expenditure was particularly high in 2007 and 2008.

The budget adopted for 2009 is a 23.5% increase from 2008 actual expenditure. However, due to the impact of the economic recession, there has been discussion of cutting the budget by 30% over the 2009 adopted budget (representing a decrease of 10% from previous actual expenditure).

The most recent decision (June 2009) was that there would be no cuts in state budget. The Government reallocated some funds (that were supposed to be released in earlier months) to the last quarter of the year, anticipating that the fiscal situation would improve by that time including receipt of direct assistance to the budget from the IMF, the World Bank and Russian Federation. This assistance is expected to help maintain the approved budget and avoid cuts.

	2008		2009	
	Adopted	Actual	Adopted	Rescheduled to the last quarter
Education expenditure	318.9	338.3	417.9	61.6
Preschool and primary general education	49.3	51.8	68.1	4.6
General secondary education	132.3	143.5	182.3	13.3
Preliminary professional (vocational) and Middle professional education	12.6	12.7	16.6	0.2
Higher education	20.5	21.9	25.3	0.0
Education not classified by levels	7.2	8.0	12.1	1.4
Supplementary services to education	95.6	99.1	111.8	41.9
Education (not listed in other classes)	1.4	1.4	1.7	0.1
% wages in recurrent expenditure on education	80.7		77.5	

The total amount reallocated to the 4th quarter of the year for the education budget is equal to 18,700,866,600.0 AMD (Armenia Drams), or some US\$ 60 million. The above table displays a breakdown of expenditure by level of education in 2008 and 2009 as well as the

amount of rescheduled funds to the last quarter of 2009. The budget item that seems most affected is the supplementary services to education, which might affect the quality of education

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³⁵ ONE is a global advocacy and campaigning organization backed by more than 2 million people from around the world dedicated to fighting extreme poverty and preventable disease, particularly in Africa.

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Useful links

- The Global Monitoring Report 2009: A Development Emergency.
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<http://www.ei-ie.org/handsup/en/index.php>
- Funding Education: Crisis Watch.
<http://fundingeducation.blogspot.com/>

Annex 8: Acronyms and abbreviations

ADB	Asian Development Bank
AFR	Africa region
APA	Asia and the Pacific region
ARB	Arab States region
CPA	Country Programmable Aid
CRS	Creditor Reporting System
DRC	The Democratic Republic of Congo
ECA	United Nations Economic Commission for Africa
ECLAC – CEPAL	United Nations Economic Commission for Latin America and the Caribbean
EFA	Education For All
FTI	EFA Fast Track Initiative
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
FO	UNESCO Field Office
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEE	Government Expenditure for Education
GMR	EFA Global Monitoring Report
GNI	Gross National Income
IADB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
Lao PDR	Lao People's Democratic Republic
LIC	Low-Income Countries
MDG	Millennium Development Goal
MENA	Middle East and North Africa
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
DAC	Development Assistance Committee
OPEC	Organization of the Petroleum Exporting Countries
PRGF	Poverty Reduction and Growth Facility
PTR	Pupil/Teacher Ratio
SSA	Sub-Saharan Africa
UK/DFID	UK Department for International Development
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VFF	Vulnerability Financing Facility
WB	World Bank (The)