



Long term impacts of global crises on human development: mechanisms and policies

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Roadmap – the next 20 min



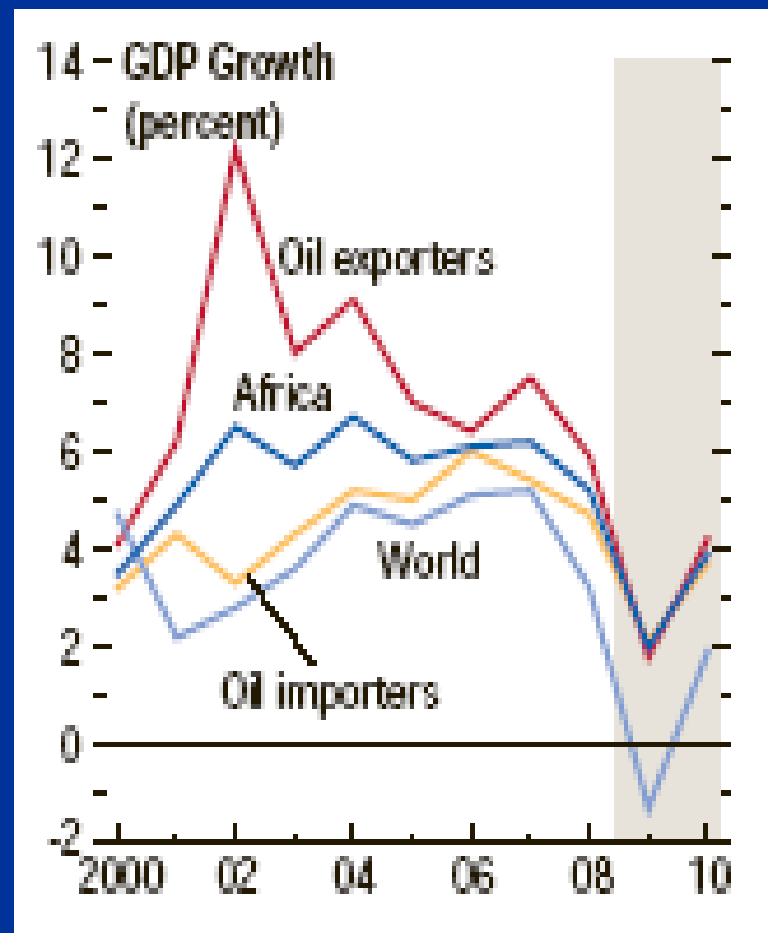
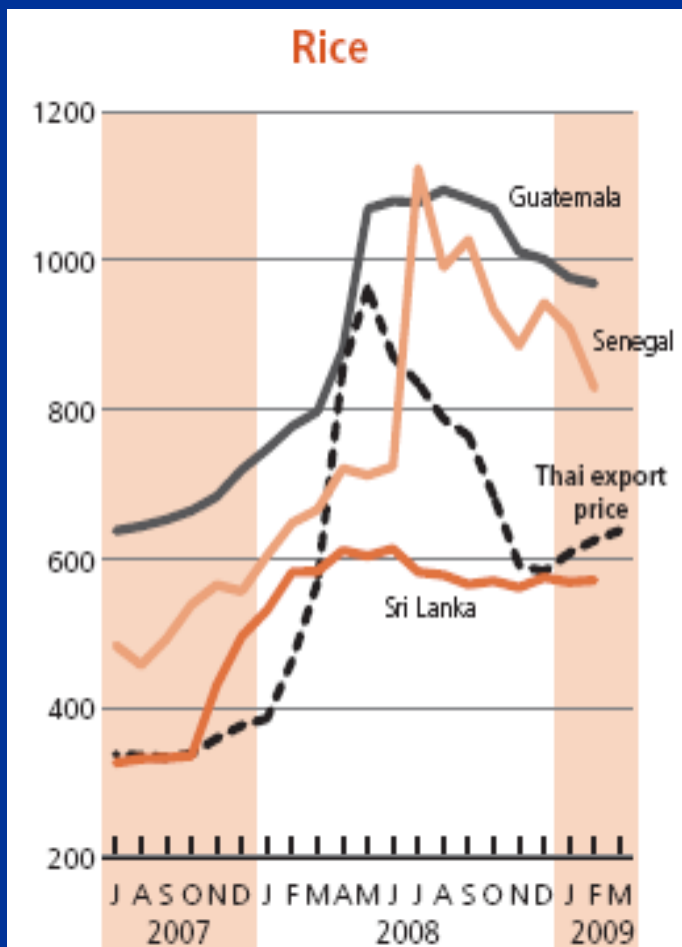
- Channels of impact
 - Coping mechanisms
- Evidence and models
- Policy implications

Primary Sources



- Conceição, Mukherjee and Nayyar: *'Impacts of the economic crisis on human development and the MDGs in Africa'*, April 2010 (CMN)
- Fernandez and Lopez-Calva: *'Transitory shocks, permanent effects: impact of the economic crisis on the well-being of households in Latin America and the Caribbean'*, December 2009 (FL)
- Horváth, Ivanov and Peleah: *'The human development impact of the global crisis on Central, Eastern and Southern Europe and the CIS'*, January 2010 (HIP)
- Mukherjee and Nayyar: *'Coping with shocks: evidence from the Philippines and Kenya during 2009-2010'*, in progress (MN)
- National MDG Reports, various countries

Tale of Two Crises...



Global Crises



- Unanticipated, coordinated shocks across countries
- Differentiated impact on countries and populations, through different channels
 - Coping strategies
- Correlated shocks can produce measurable, long term impacts on human development
 - Multidimensional
- Diminished capacity to respond to subsequent shocks
 - Macro and micro levels

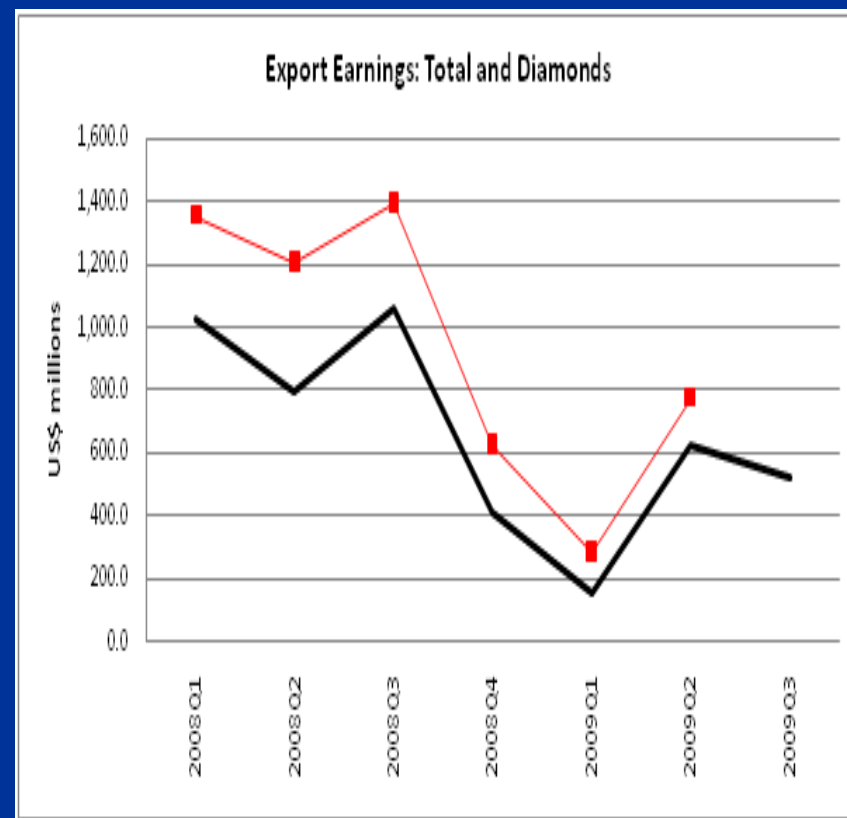
Channels: exports by type



Philippines: Electronics



Botswana: Diamonds

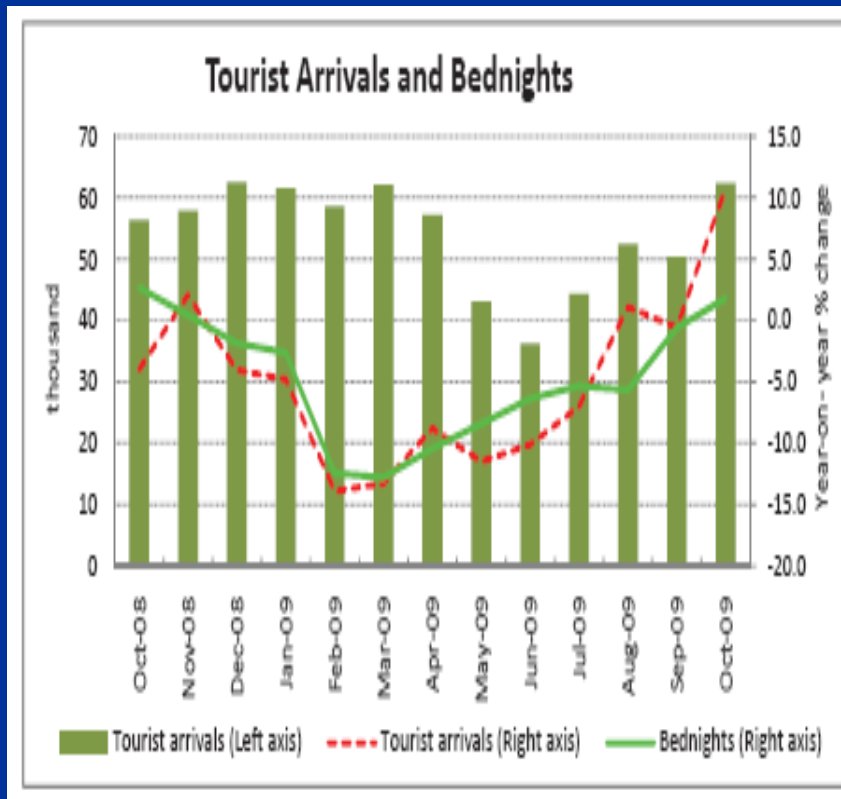


Source: Data from IMF direction of trade statistics; and country central banks

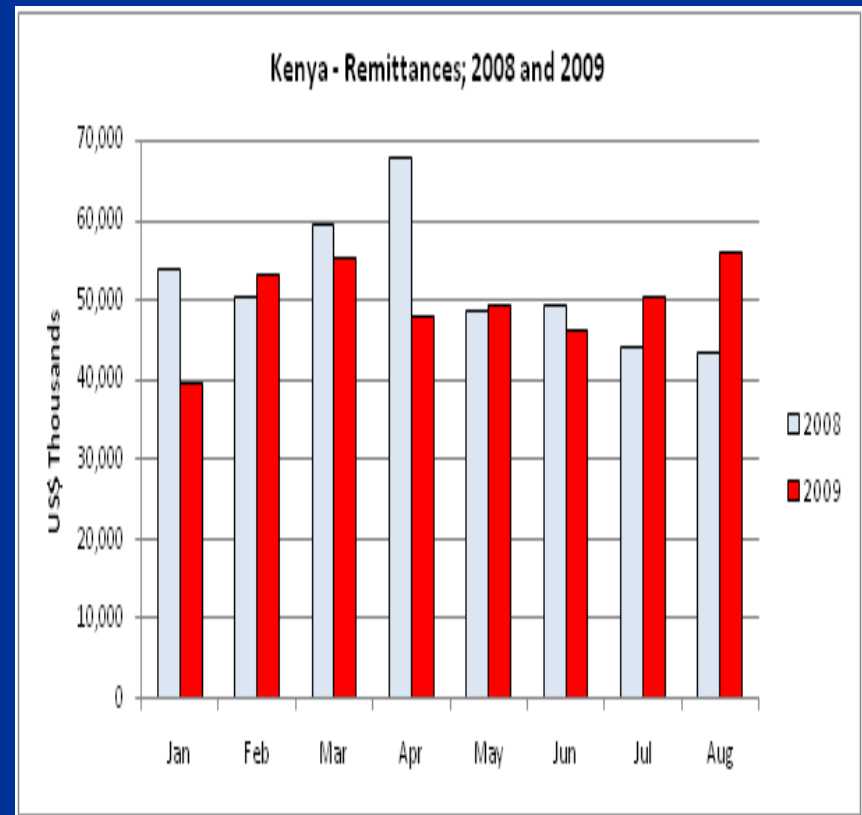
Channels: tourism and remittances



Maldives



Kenya

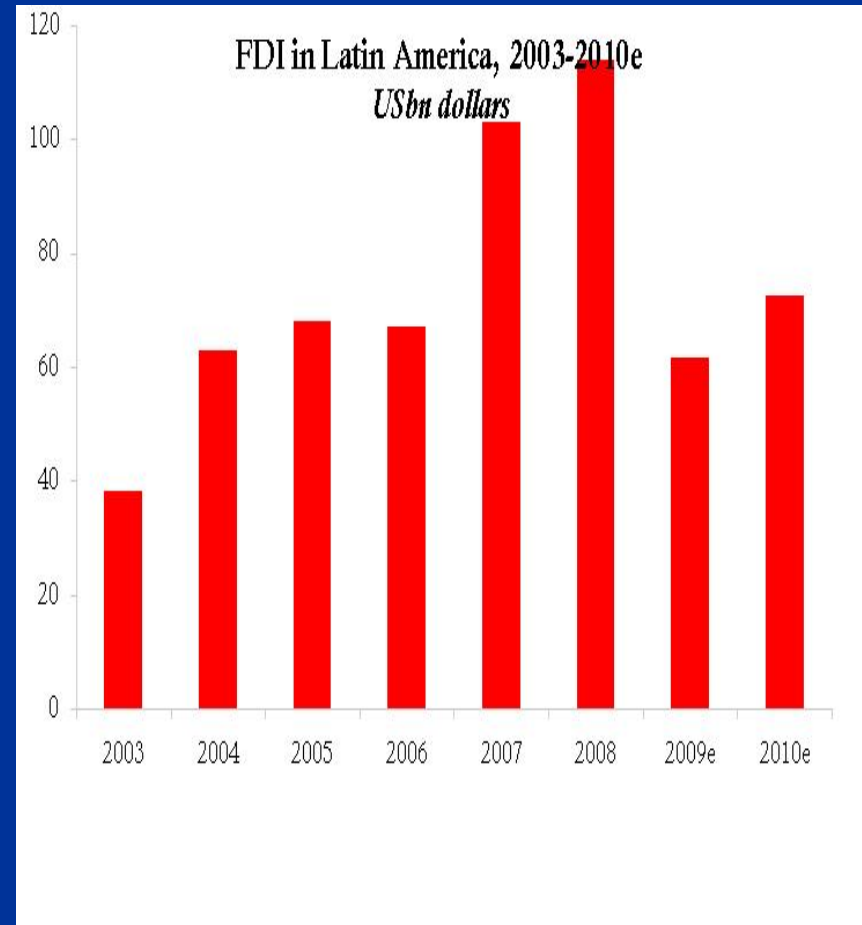


Source: Data from country central banks

Financial flows: three different perspectives



- LAC
 - Short term shock, with gradual recovery
- CIS
 - Banks
 - Falling domestic credit and domestic demand
- Asia
 - Banks relatively unscathed
 - Flows resurgent



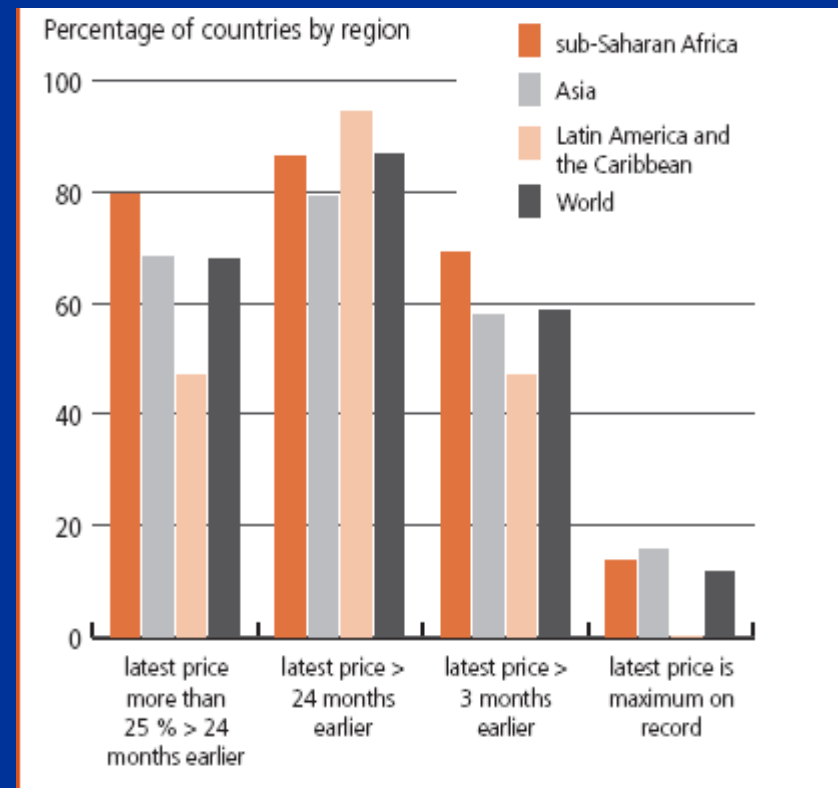
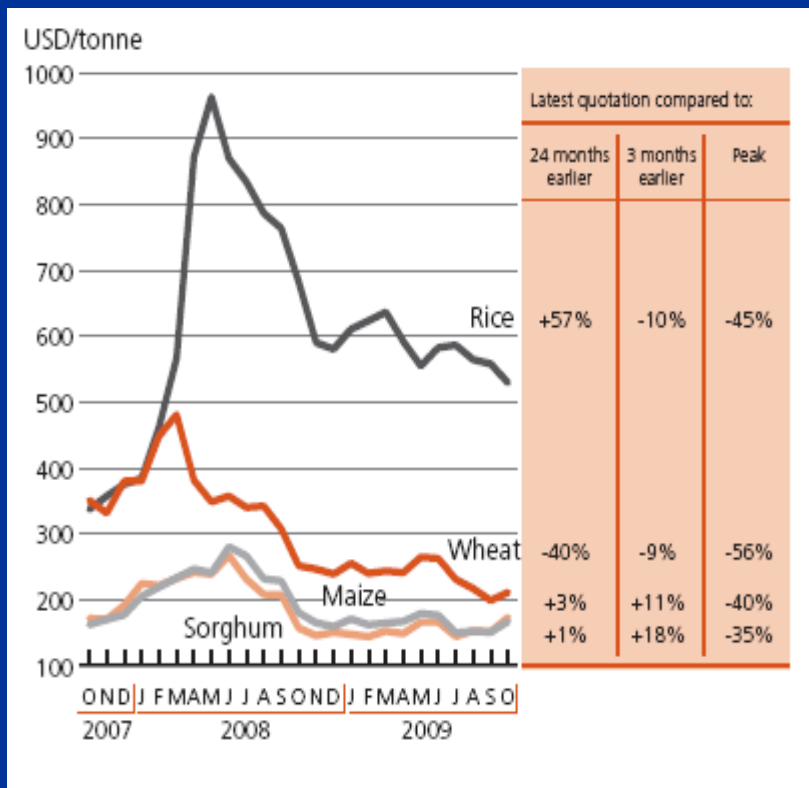
Source: Lopez-Calva

Exacerbating factor: food prices



Falling world prices...

...Sticky domestic prices



Summary

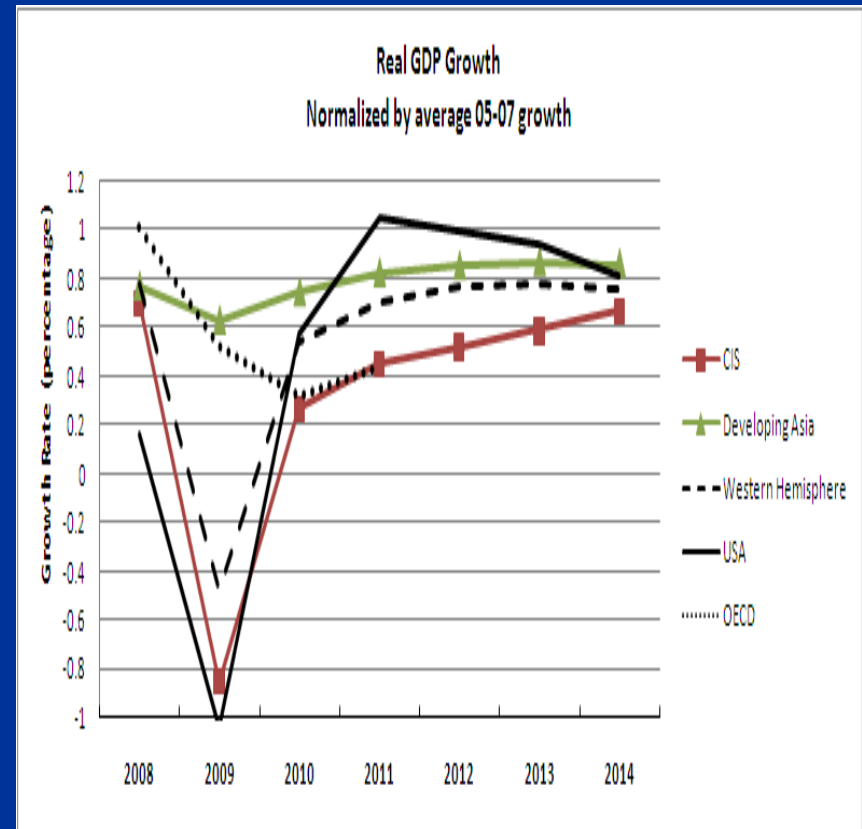


- Trade: Adverse impact in all regions, but nature of basket and destination matters
- Remittances: Selected countries but strong (potentially fragile) source country effect
- Financial effects: Pronounced in CIS and LAC, less so in Asia
- Tourism: Pronounced for some countries in LAC and Asia, less so in CIS
- Food prices: Eroded household response capacity but provided prior producer gains

Impacts: Lags and changes



- Immediate: growth, employment, deficits (macroeconomic)
- Coping mechanisms at household level (microeconomic)
- Longer term: human development
- Picture evolving



Source: WEO 2010/1, IMF

Summary: Economic Impacts



- GDP: No region expected to return to 05-07 rates, but CIS worst off over next 5 years
- Employment: Expected slower recovery than GDP; returning migrants, monocompany towns exacerbated situation in CIS
- Fiscal effects: Cushions in LAC and some other countries; useful for stimulus
- Asian economies most robust and capable of responding



Pathways to human development impacts

- Private channels
 - Household earnings
 - Engel curves: nutrition quality and quantity
 - Deferred health care and/or education
 - Asymmetries across genders/age/other divisions
- Public channels
 - Revenue shortfalls coincide with increased needs for social protection
 - Quality of existing services fall

Depth, duration and frequency matter



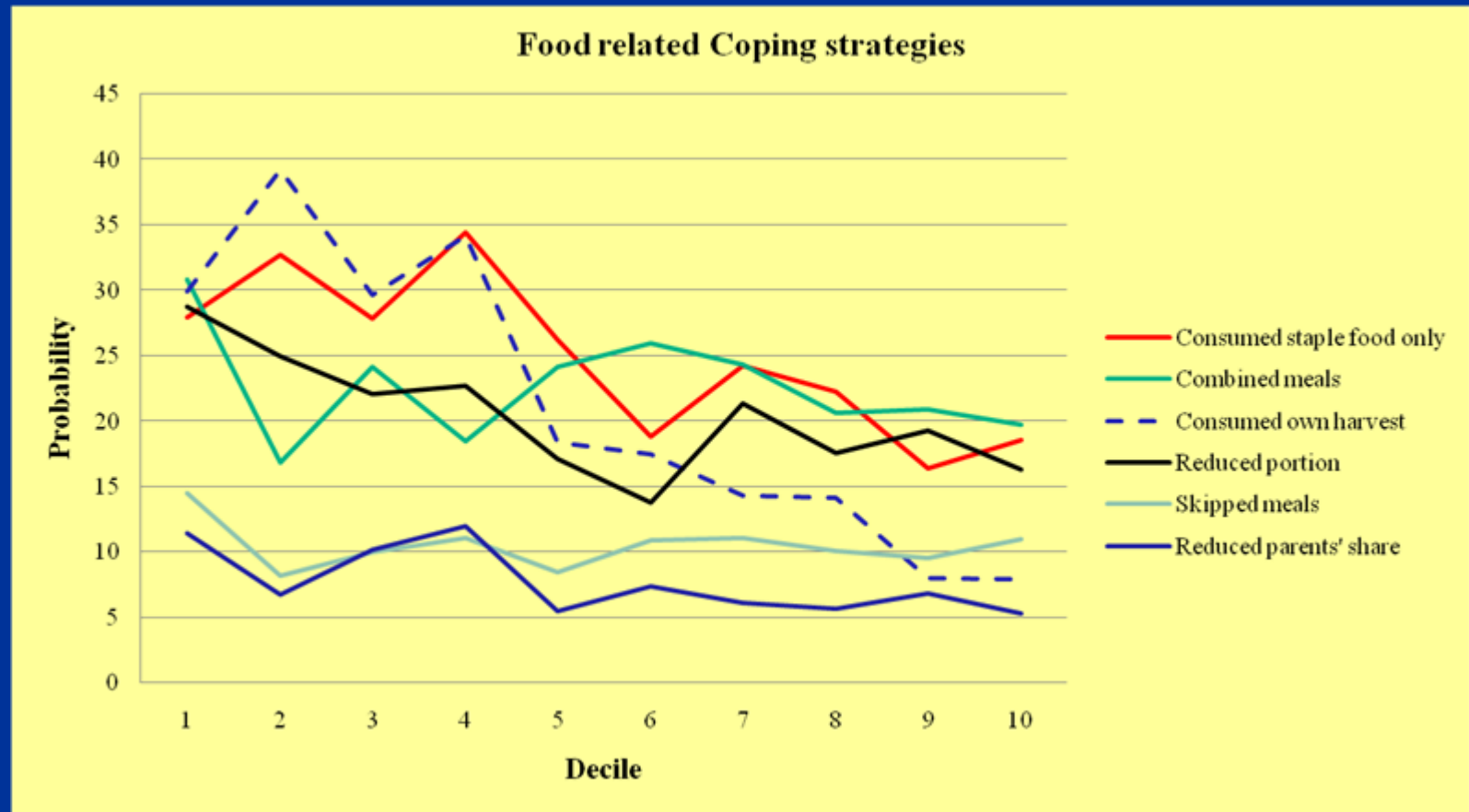
- Poor nutrition during critical periods
 - Cognitive ability of children
 - Maternal, fetal and child health
 - Chronically ill such as those with HIV/AIDS
- Education reversals
 - School drop-outs or non-completion can become permanent or irreversible
- Capacities to respond
 - Increased vulnerabilities in the face of recurrent shocks
 - Risk sharing and spatial/temporal correlation of shocks

Coping strategies mediate impacts



- ✓ Help understand micro impacts of shocks
- ✓ Harmful coping strategies lead to adverse long term human development impacts
 - Impacts on children and other vulnerable groups
 - Harmful intra-household coping
- ✓ Coping strategies can be indicative of the stage and severity of a crisis
 - Hierarchies
- ✓ Can lead to more effective social protection policies

In the Philippines (I)



Source: CBMS 2009

In the Philippines (II)



- **Education**
 - No drop-outs but reduced expenditure on supplies and allowances
- **Health**
 - Moved to public health care, using medicinal plants and traditional treatments
- **Assets**
 - Borrowed money and sold assets including animals
- **All more pronounced among poor compared to non-poor**
 - Rural-urban differences

History: poverty rates



Country	Before crisis	Year of crisis
Argentina	10.1 (1980)	20.6 (1985)
Argentina	25.2 (1987)	34.6 (1989)
Argentina	16.8 (1993)	24.8 (1995)
Brazil	27.9 (1989)	28.9 (1990)
Costa Rica	29.6 (1981)	32.3 (1982)
Venezuela	25.7 (1982)	32.7 (1983)
Venezuela	40.0 (1988)	44.4 (1989)
Venezuela	41.4 (1993)	53.6 (1994)
Indonesia	11.3 (1996)	18.9 (1998)
Korea	2.6 (1997)	7.3 (1998)
Malaysia	8.2 (1997)	10.4 (1998)
Thailand	9.8 (1997)	12.9 (1998)

Note: The year of crisis is in parenthesis.

Sources: Lustig, Fishlow and Bourguignon (2000, p.4), Skoufias (2003, p.1088).

History: Health and Education



- Paxson and Schady (2005); Baird, Friedman and Schady (2007)
 - Increases in infant mortality; more for females than males
 - Falling public and private expenditure on health care
- Education reversals (but not always)

Table 2: Changes in Enrolment and Dropout Rates among Indonesian Children ages 13-19, 1997-1998

Enrolment Rates			
	Percentage Enrolled		Percentage Change
	1997	1998	
Male	61.5	56.9	-7
Female	59.4	55.9	-6

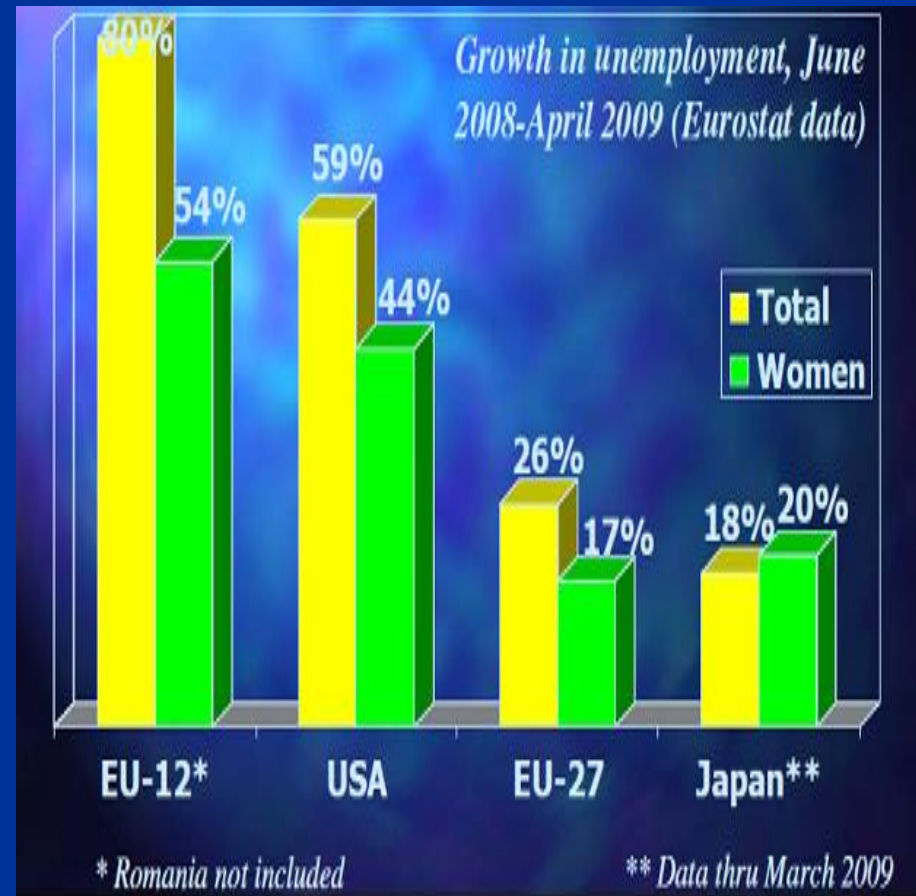
Dropout Rates			
	Dropout Rate		Percentage Change
	1997	1998	
Male	12.1	17.7	46
Female	12.3	16.2	32

Source: Social Consequences of the Financial Crisis in Asia, ADB Economic Staff Paper No. 60, November 1999

Other elements of human development



- Suicides, crimes, trafficking, prevalence of infectious diseases may increase
- Asymmetric gender effects
 - Employment picture mixed
 - Domestic violence may escalate



Generalizing: what to expect



- Worsening of human development during shocks; *country and indicator specific*
- One approach: human development impact *via* elasticity of specified indicator with respect to real GDP per capita

$$\frac{\Delta h_{ic}}{h_{ic}} = \varepsilon_{ic} \left(\frac{\Delta y_c}{y_c} \right)$$

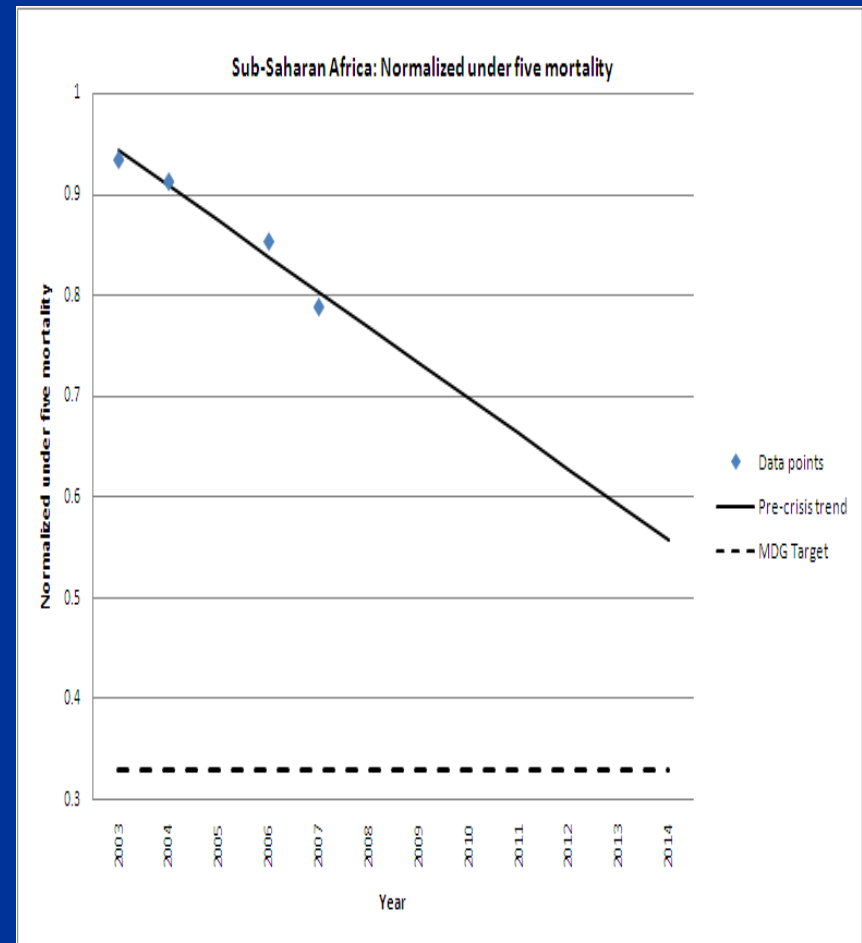
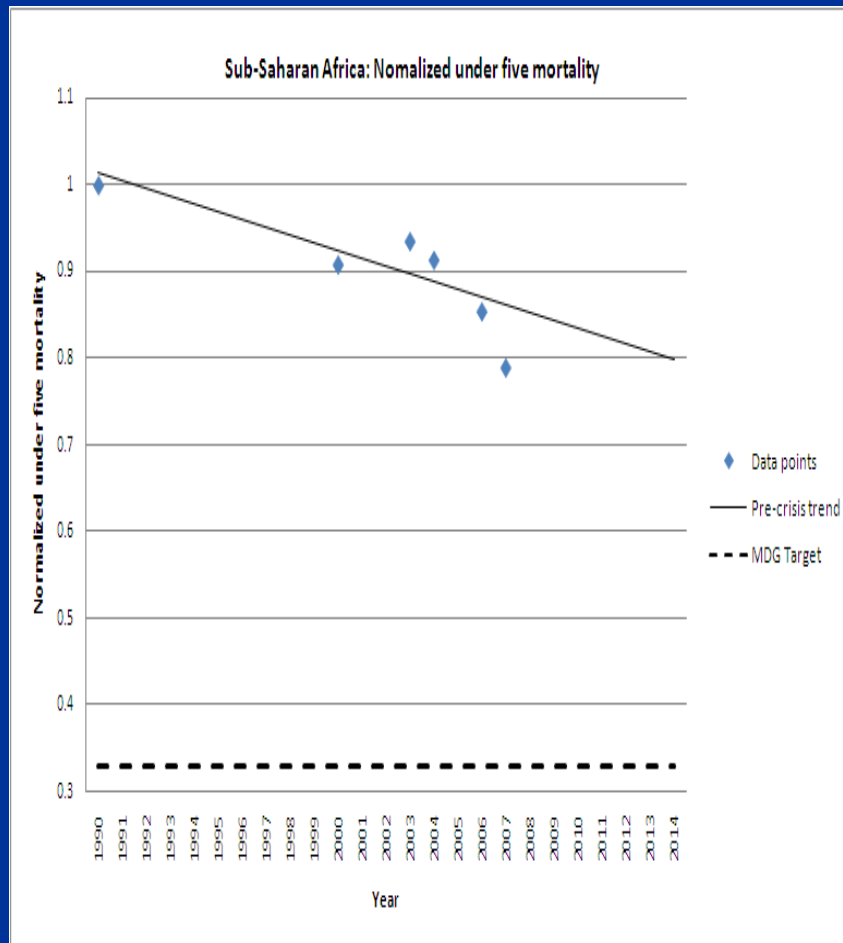
- Elasticity estimates for infant/child mortality, nutrition and others between -0.1 to -0.8

Normalized HD/MDG indicator



- Many MDG targets have common generic form
 - h_{ic} value 1 in 1990 (or reference year); specified target value in 2015
 - Target values e.g. 0.5 for hunger, 0 for primary (non) enrolment, 0.25 for maternal mortality, 0.33 for child mortality
- A range of trends
 - ‘rapid’ ($h_{ic} = 0.33$ in 2015)
 - ‘moderate’ ($h_{ic} = 0.6$ in 2015)
 - ‘slow’ ($h_{ic} = 0.9$ in 2015)

Example: Normalized MDG4



Sources: UN MDG Reports, 2005, 2006, 2008, 2009

Scenario building

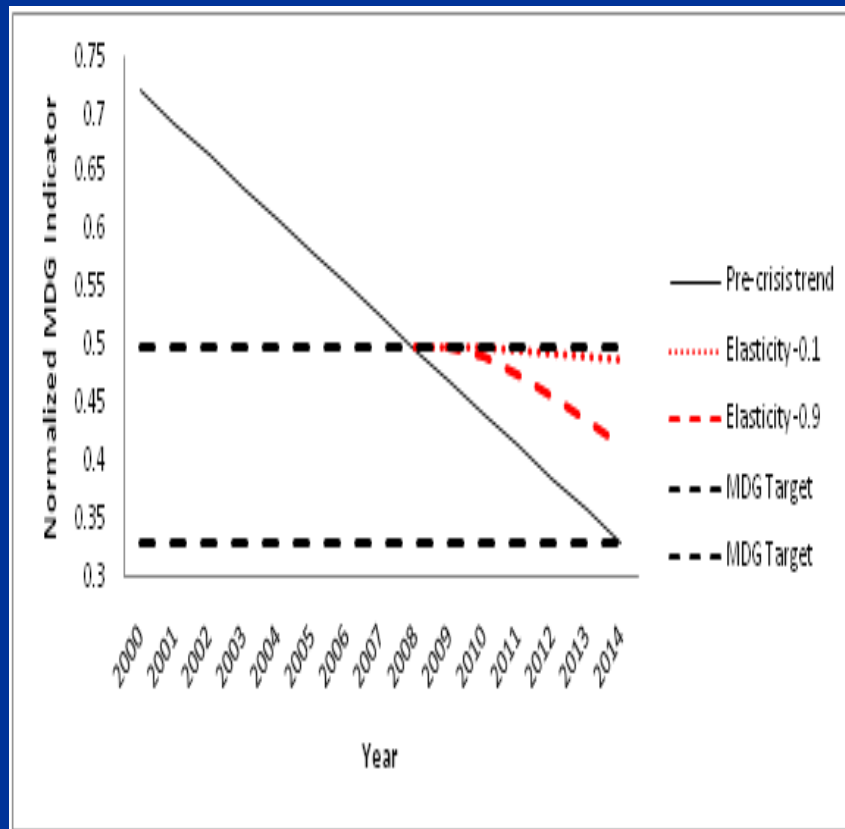


- Apply elasticity values of 0.1 to 0.9 to GDP/capita projections
 - identify deviations from trend as possible scenarios; cumulative effect of depth and duration
 - countries can locate where they are, if they know what their trend looks like, and have a reliable estimate of the relevant elasticity
- Some caveats about the elasticity
 - short term rather than long term
 - ‘historical’ so less useful for projecting if recent developments have changed its value
 - other factors also important (e.g. small elasticity example)

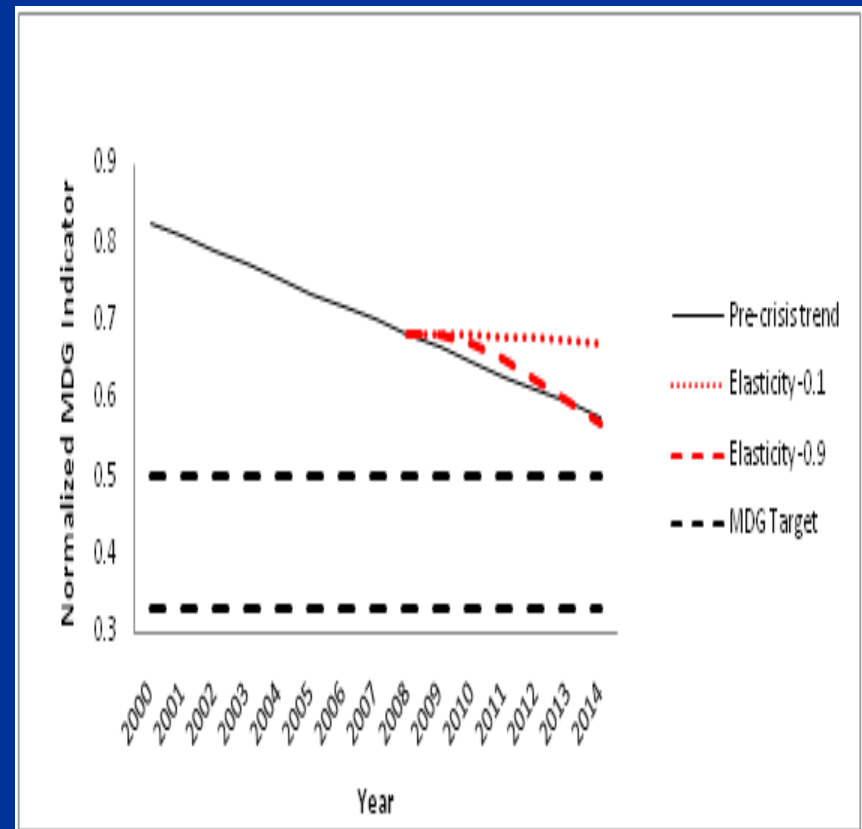
Scenarios for SSA



'Rapid' trend



'Moderate' trend



Source: Conceicao, Mukherjee and Nayyar (2010)

Scenarios for the CIS



Poverty rates - \$2/day



Life expectancy at birth (all)



Source: Horvath, Ivanov and Pelea (2010)

Summary: HD and the MDGs



- Effects vary by country and indicator: some felt more strongly than others
- Elasticity values and pre-existing trend; along with growth trajectory determine size of deviation; room to maneuver may be limited
- Impacts can be felt even after the economy turns around
- Ability of growth alone to deliver is limited
- Responses - policies and safety nets – matter: help determine elasticity

Policy messages for human development (I)



- Growth necessary but limited potential: effective policies and instruments needed
 - GDP/capita *and* elasticity
- Accelerating progress
 - Maintain or increase expenditure trends
 - Identify and remove key bottlenecks
 - Learn from country experience; scale up successes
 - Facilitate contributions from *across* sectors and through *multipliers*
 - Promote South-South knowledge sharing and partnerships

Policy messages for human development (II)



- Institute well designed social protection
 - Eliminate recourse to harmful coping strategies
 - Build country capacities

- Ensure quality and continuity of health and education services
 - Also protect expenditures on supplies, training and other quality determinants

Policy messages for human development (III)



- Introduce – and maintain- effective monitoring mechanisms
 - Disaggregated data, proxy indicators, administrative data
 - New technologies

- Prepare for the future
 - Recoveries can be fragile and need nurturing; crises are inter-related
 - Climate change
 - Understand and change limits to risk-pooling mechanisms