What should the EC do to support developing countries during the crisis?

2 more pledges

IDS IN FOCUS POLICY BRIEFING

Research and analysis from the Institute of Development Studies

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POLICY RESPONSES TO THE GLOBAL FINANCIAL CRISIS
MARCH 2009

The Global Financial Crisis, Developing Countries and Policy Responses

How will the global financial crisis affect developing countries and what should policy responses be? To address the development dimensions of the current crisis, the Institute of Development Studies (IDS) undertook a set of rapid research projects. This brief summarises the conclusions from those projects. See www.ids.ac.uk/go/infocus7

The impact of the crisis on poverty

Previous financial crises have increased poverty – sometimes dramatically (see In Focus Policy Briefing 7.2).

Sadly, the world has a lot of experience of financial crises. Figure 1 shows poverty rates before and after the major crises

Figure 1. Poverty impacts of selected financial crises

Policy recommendations on poverty impacts of the crisis

- Invest in better early warning poverty and vulnerability data systems for rapid release of quantitative and qualitative indicators of the impacts of the crisis on poor people.
- Seize on opportunities to strengthen and implement social protection systems and programmes and develop long-term programmes through global partnerships.
- Aid-led finance is urgently needed to expand social protection in poor countries lacking fiscal space.
- Support vulnerable businesses, particularly in rural areas coping with shortages of credit and reduced demand in export markets.

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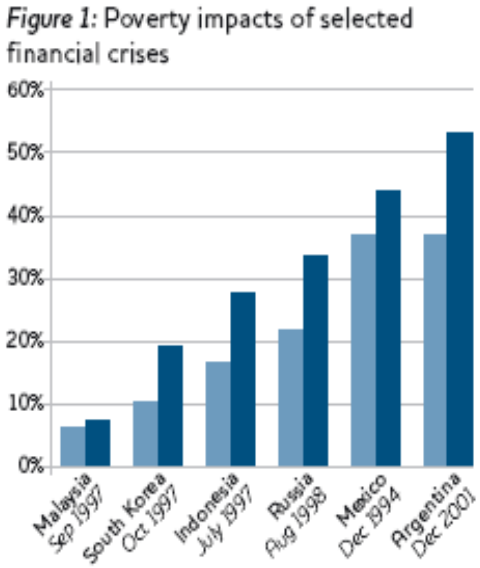
Poverty estimates of the crisis

- Various poverty estimates:

  – 43 or 33 countries;
  – 46, 53, 90 million new poor;
  – US$46 per poor African;
  – 200-400,000 more infant deaths.



- Depends on growth/poverty assumptions;

Latest estimates of lost growth

GDP growth (%)	2009	2010	Lost growth 2009-2010
All developing countries	2.1	4.4	-3.9
Minus China and India	0.0	2.7	-5.0

Evidence from previous crises

- GDP contracts 8% and poverty headcount rises 7% (**rising 50% proportionally**) but variations;
- **Nutrition/health** worsen; **schooling** usually;
- **Uneven** impacts **gender and children**;
- Five channels: **labour demand; prices; public spending; asset values** - economic and non-economic**; long-term capabilities** (of malnutrition, schooling drop-outs, etc).

What should the EC do?

- **Rapid real-time poverty tracking**: link the MDGs with vulnerability indicators; and do rapid appraisal including people's own crisis indicators;

- **Social Protection beyond a paragraph** (p.8): Make SP objective-led *then* plan instruments (not vice-versa); go beyond transfers to EC aspirations of transformative SP; build local ownership (via dialogue, CSP review, design).