Overseas Development Institute

The gobal financial crisis and developing countries

Synthesis of the findings of 10 country case studies

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The gobal financial crisis and developing countries

Synthesis of the findings of 10 country case studies[1]

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Contents

Foreword vi
Executive summary vii

1. Introduction 1
2. Private capital flows 2
3. Trade 7
   3.1 Commodity price shocks 7
   3.2 Manufactured export declines 9
   3.3 Multiple-hit economies 9
   3.4 Imports and exchange rate developments 10
4. Remittances and migration 12
   4.1 Remittances 12
   4.2 Migration 13
5. Official development assistance 16
6. Balance of payment shock 18
7. Growth effects 19
8. Poverty and human development implications 22
   8.1 Employment 23
   8.2 Private and public transfers 23
   8.3 Prices and wages 23
   8.4 Assets and access to goods and services 24
9. Economic policy responses 25
10. Effects on the government balance 27
11. Social protection provision 29
   11.1 Social protection provision 29
   11.2 Resource availability 30
   11.3 The role of the donor community 30
   11.4 Policy priorities 30
   11.5 Conclusions 31
   11.6 Factors determining social protection response 31
12. Institutional context for policymaking 33
13. Conclusions 34

References 37

Figures and tables

Figure 1: Uganda portfolio investment, 2006-2008 (US$m.) 2
Figure 2: Nigeria stock market performance, 2002-2009 3
Figure 3: Indonesian Stock Exchange Index, 2007-2009 4
Figure 4: Ghana FDI, 2006-2008 (US$m) 4
Figure 5: Nigeria NPLs, 2003-2008 (% of commercial bank loans) 5
Figure 6: Copper prices at the London Metal Exchange (US$) 8
Figure 7: Cambodia's garment exports to the US, Jan 2006-Jan 2009 (US$m) 9
Figure 8: US imports of Bangladeshi and Chinese garment imports, 2006-2008 (US$m) 9
Figure 9: Number of Bangladeshis leaving for jobs abroad, 2007/08-2008/9 13
Figure 10: Remittances to Kenya, 2004-Jan 2009 (US$, '000) 14
Figure 11: Nigeria's external reserves, 2000-2008 (US$m) 18
Figure 12: Cambodian real GDP growth, actual and forecasts, 2002-2009 (%) 21
Figure 13: Real earnings of unskilled workers in Cambodia, 2007-Feb 2009 (% change) (n=480) 24
Figure 14: Budget deficit in Bangladesh, FY2001/02-FY2009/10 (crore taka, %) 27
Figure 15: Bolivian exports, 2000-2008 (current and constant US$) 28
Figure 16: Bolivian government balance, 2004-2008 (% of GDP) 28

Table 1: Selected countries – have private capital flows declined due to the crisis? 6
Table 2: Selected countries – most vulnerable to further drops in private capital inflows 6
Table 3: Export product concentration, by country 7
Table 4: Commodity prices, 2005-March 2009 8
Table 5: Country case study nominal exchange rate developments, March 2006-2009 11
Table 6: Remittance inflows, 2003-2008 (US$m) 12
Table 7: The effects of the crisis on remittances 12
Table 8: The effects of the global financial crisis on remittances and migration 14
Table 9: Official Development Assistance, 2008 (% of GDP) 16
Table 10: The level of and change in national reserves expressed in months of imports, 2008-2009 18
Table 11: The growth implications of the crisis 19
Table 12: Growth projections for Indonesia, 2008 and 2009 (%) 21
Table 13: Expected poverty effects of global financial crisis in 2009 22
Table 14: Examples of policy responses 26
Table 15: Summary of country responses 32

Acronyms

ADB	Asian Development Bank
AERC	African Economic Research Consortium
BCEAO	Central Bank of West African States
BoP	Balance of Payments
CAR	Capital Adequacy Ratio
CDRI	Cambodia Development Policy Research Institute
CFA	French Community of Africa
CPD	Centre for Policy Dialogue (Bangladesh)
CSIS	Centre for Strategic and International Studies (Indonesia)
DFID	UK Department of International Development
DGIS	Dutch Ministry of Foreign Affairs
EPRC	Economic Policy Research Centre (Uganda)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
INESAD	Institute for Advanced Development Studies, Bolivia
IPO	Initial Public Offering
ISSER	Institute of Statistical, Social and Economic Research, Ghana
LEAP	Livelihood Empowerment Against Poverty (Ghana)
MDG	Millennium Development Goal
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
NHIS	National Health Insurance Scheme
NNPC	Nigerian National Petroleum Company
NPL	Non-Performing Loan
NSPS	National Social Protection Strategy (Ghana)
ODA	Official Development Assistance
ODI	Overseas Development Institute
REO	Regional Economic Outlook
ROA	Return on Assets
ROE	Return on Equity
UAE	United Arab Emirates
UK	United Kingdom
US	United States
WAMU	West African Monetary Union
WDI	World Development Indicators

Foreword

The UK DFID and DGIS supported a team of 10 ODI researchers and 30 research collaborators in 10 countries (in Asia: Bangladesh, Cambodia and Indonesia; in South America: Bolivia; and in Africa: Benin, Ghana, Kenya, Nigeria, Uganda and Zambia) to examine the effects of the global financial crisis. We are all grateful for the support received.

The research involved a workshop in London, consultations in nine countries and two syntheses. It aims to inform key policy processes and international discussions on the actual effects of and appropriate policy responses to the global financial crisis. ODI's work on the global financial crisis is highlighted at http://www.odi.org.uk/odi-on/financial-crisis/default.asp.

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Executive summary

The Overseas Development Institute has coordinated a 10 country study on the effects of the global financial crisis and country level policy responses in Bangladesh, Benin, Bolivia, Cambodia, Ghana, Indonesia, Kenya, Nigeria, Uganda and Zambia. These countries exhibit different levels of openness, aid and remittance dependency, financial integration, economic and trade structures, and institutions and so it is likely that they will be affected differently. Conducted by 40 developed and developing country researchers, this research has examined the main transmission belts (trade, private capital flows, remittances, aid) through which the crisis affects developing countries. It has also examined the growth and development effects and the policy responses so far. While it is still too early to assess the full effects, and there is consensus amongst the country case studies that 2009 will see worse effects than 2008, we find that different countries are affected differently. The slowdown in growth comes after a period of strong growth for developing countries and puts development success stories in danger.

Transmission belts

While the same transmission belts (trade, private finance, aid, remittances) affect country case studies differently, it is now clear that all countries are experiencing the effects.

- *Private financial flows* have been affected, but there is a need for disaggregation. Portfolio investment flows experienced a dramatic drop in 2008 in most countries, shifting sometimes to large net outflows and a significant drop in equity markets in 2008 and into 2009. There is evidence of increased tightening credit conditions for bank lending in Cambodia, Ghana and Zambia. Foreign Direct Investment has been affected less, but the impact varies across countries, got worse during the year, and shows a marked worsening compared to record increased to countries in Africa in 2007 and 2008. Bond issuances have been put on hold in Ghana, Kenya and Uganda.
- The value of *trade* is declining. For example, Indonesian exports of electronic products (which account for 15% of total exports) experienced a fall of 25% (in value terms) in January 2009 y-on-y. The value of garment export in Cambodia has already dropped from a monthly average of $250 million in 2008 to $100 million in January 2009. Prices of most commodities such as copper and oil declined dramatically, affecting countries such as Nigeria, Zambia and Bolivia, but cocoa and gold prices did not decline which is good for countries such as Ghana. Imports bills for fertilizer and oil have declined taking some pressure off the current account in oil importing countries.
- Remittances are down in nearly all case study countries. For example, in Kenya remittances have declined by 27% y-on-y in Jan 2009 after a volatile 2008. In Bangladesh emigration is down by 38.8% (y-on-y, Feb 2009 compared to Feb 2008) jeopardising future remittances.
- So far there is little to no evidence of an aid pull out. However, there has been a decline in aid to Uganda in 2008, although it might be too early to attribute this fully to the crisis.

Effects on economic growth

The actual effects on growth so far and expected effects vary across countries:

- A general growth slowdown throughout 2008 is visible for countries with quarterly statistics. There is a general consensus among the country case studies that 2009 will see worse effects. This is consistent with IMF forecasts that several countries will see declining GDP per capita in 2010.
- Growth forecasts have been revised in all countries. Reduced growth prospects are noticeable especially when comparing to excellent growth records for developing countries in the years leading up to 2007 and to some extent 2008. For example, Cambodian growth is set to decline from more than 10% in 2007 to close to zero in 2009. Kenyan growth may only reach 3-4% in 2009, down from 7% in 2007, and after a sluggish 2008 due to political turmoil. Some other

countries such as Zambia have seen growth prospects alter less despite effects on the mining industry.
- Growth in countries is affected differently because of sector composition: tourism in Kenya and Cambodia; manufacturing in Asian countries; and commodities in Bolivia and Zambia.
- Manufacturing has been hit hard, especially in Asia countries that specialise in exports such as garments (Cambodia) and electronics (Indonesia).
- Countries whose growth has been dependent on export sectors have suffered more. For example, Cambodia has suffered greatly but, although Indonesia's manufacturing exports and sector were affected, overall consumption and services have been important in driving recent growth there.

Effects on employment

There are already some significant employment effects:
- A recorded 15,000 construction workers in Cambodia were laid off in mid-2008. This has led to some de-urbanisation. The garment industry (which employed a total of around 350,000) has been hardest hit, with approximately 51,000 people laid off (many of these women) in the six months between September 2008 and March 2009.
- FDI-generated employment in Ghana dropped from 15,526 in the fourth quarter of 2007 to 10,022 in 2008 (Q4).
- In Indonesia, by February 2009, 37,905 workers had been laid off as a result of the current crisis.
- In Kenya, the labour-intensive horticultural industry, which employs an estimated 3 million people, had to cut around 1200 jobs this year and suffered a 35% drop in exports of flowers.
- In Zambia, 8,100 workers in the mining sector (of an estimated total of 30.000) lost their jobs in 2008.
- A simulation exercise in Bolivia predicts rising unemployment as a result of lower remittances (3.0%) and mining exports (1.6%).
- Following the International Labour Organization (ILO) methodology (2002), incremental job opportunities in Bangladesh may be squeezed by 500,000 compared with the expected level, if GDP growth slows down to the World Bank's projected level of 4.8%.
- The ILO has estimated employment elasticities with respect to growth and the average over 1991-2003 is: Nigeria, 1.11; Ghana, 0.77; Zambia, 0.20; Cambodia, 0.37; Benin, 0.87; Bangladesh, 0.31; Bolivia, 1.26; Uganda, 0.34; Kenya, 1.96; Indonesia, 0.24.

Effects on poverty

There are likely to be significant implications for poverty. Simple back of the envelope calculations using changes in growth forecasts and previously estimated poverty elasticities with respect to growth (or mentioned in the country reports) would suggest that the household poverty count might increase compared to what it otherwise would have been this year alone by
- 300,000 in Bangladesh (or 0.2% of population),
- 110,000 in Cambodia (0.8% of population),
- 233,000 in Uganda (0.8% of population),
- 230,000 in Ghana (1% of population) and
- 650,000 in Indonesia (0.3% of population).

Economic policy responses

Economic policy responses to address the fallout of the global financial crisis range from continuing business as usual to embarking on a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia) or implementing fiscal stimuli (e.g. Indonesia), but in others there has been a very small monetary policy step and not much else (e.g. Kenya). The government balance is affected, but varies across countries from lower tax receipts in

Uganda, to lower government fuel import bills in Bangladesh and the evaporation of anticipated substantial increases in tax receipts from Zambian mining.The research has found that some countries (e.g. Kenya, Ghana, Bangladesh, Nigeria) have established a crisis task force which may help them to respond to the crisis.

Social protection provision responses

There is a wide range of social protection responses, ranging from countries that were struggling to meet existing social protection commitments (such as Kenya and Uganda); to those that were attempting to extend coverage significantly in response to the crisis (Bangladesh and Ghana), even at the cost of a widening fiscal deficit (Cambodia); to those for which the priority policy response was addressing growth issues and investing in a fiscal stimulus package, or attempting to reduce social sector expenditure in order to promote macroeconomic sustainability in the context of a widening deficit rather than focusing on the extension of social protection provision (Indonesia and Nigeria respectively).

Conclusion

This is the beginning of the monitoring work and it will be important to continue the monitoring of the effects of the global financial crisis on developing countries and to understand developing country policy responses in the next phase.

1. Introduction

This is a synthesis of a unique 10-country case study on the effects of the global financial crisis on developing countries. The global financial crisis started in developed countries, and the global economic recession which has followed it is having a widespread impact on developing countries (te Velde, eds, 2009, A Development Charter for the G-20). By the end of this year, developing countries are expected to lose incomes worth at least $750 billion. In sub-Saharan Africa, the figure is over $50 billion. The consequences are likely to include: increases in unemployment, poverty and hunger: an extra 50 million people being trapped in absolute poverty, with the number expected to rise to 90 million; and the total number suffering from hunger, already up by 75 million, to rise to nearly 1 billion people, having risen for the first time in nearly two decades. While many observers initially thought that poorer countries would be shielded from the effects of the global financial crisis, this is no longer true, as our research shows.

This research study linked developing country research institutes, think tanks and donor agencies, including DFID and DGIS. The research has focused on three regions: Asia (Bangladesh, Cambodia and Indonesia), South America (Bolivia) and Africa (Benin, Ghana, Kenya, Nigeria, Uganda and Zambia).

The main research questions for the country case studies were threefold. First, what are the transmission belts for the shock at national level? Four channels were identified quite early on: private capital flows, trade, aid and remittances (te Velde, 2008), but we needed country-level experience. Second, what are the actual and possible effects on growth, investment, poverty and inequality and debt? And third, what are the possible policy implications, distinguishing between actual, possible and optimal policy responses?

This synthesis focuses on the trends and experiences emerging from the case studies. A companion paper (te Velde, 2009) discusses methodological issues behind the research. This report first discusses the transmission belts (private flows in Section 2, trade in Section 3, remittances in Section 4, aid in Section 5 and the resulting balance of payment shock in Section 6. It then discusses growth (Section 7) and poverty (Section 8) effects. Finally, it discusses policy responses: economic policy (Section 9), the government balance (Section 10), social protection response (Section 11) and the institutional context (Section 12). Section 13 concludes.

2. Private capital flows

Private capital flows represent an important channel through which the current global financial crisis is affecting developing countries. Private capital flows include three types: foreign direct investment (FDI), portfolio investment flows (portfolio equity flows and bonds flows) and international bank lending.

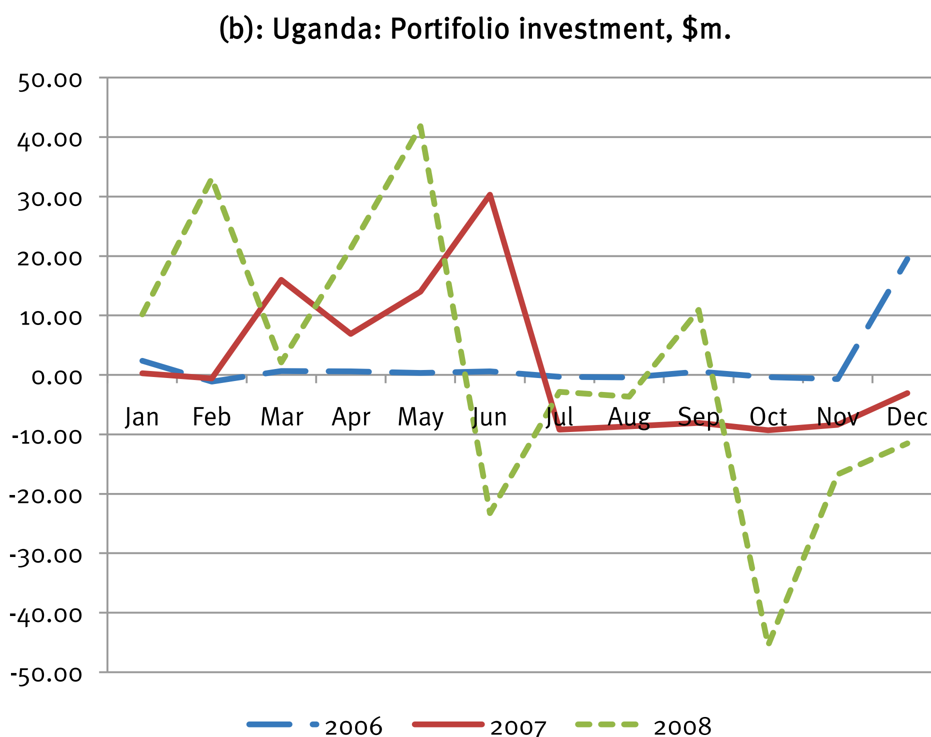
The synthesis on these components suggests that

1. Portfolio investment flows have been affected dramatically by the global financial crisis;
2. FDI has been more resilient;
3. There is little evidence so far of a drop in banks' international claims, but countries with a high degree of foreign-owned banks are more exposed to the risk of contraction of international bank lending;
4. Ghana, Benin and to some extent Zambia are the only three countries among those under study that have been affected by the global financial crisis through both FDI *and* portfolio investment inflows.

Portfolio investment flows experienced a dramatic drop in 2008, shifting sometimes to large net outflows.

- In Indonesia, Uganda and Zambia, there was a significant decline in foreign portfolio investment, especially in Q2 and Q3 of 2008 (see Figure 1 for Uganda).
- In other countries, there was even a reversal in portfolio investment flows: Bangladesh experienced net outflows worth $48 million over the period July-December 2008, whereas Kenya experienced net portfolio outflows of about $48 million in June 2008 and $12 million in October 2008.

Figure 1: Uganda portfolio investment, 2006-2008 (US$m.)



Source: Uganda country case study.

The drivers of these trends have been different from country to country. In some countries, the main driver has been the fall in bond flows. In Indonesia, for example, there was a massive sell-off of government bonds, and the government as well as many companies postponed their bonds issuance plans indefinitely.[3] On the other hand, countries like Kenya and Nigeria faced a major drop in portfolio equity flows, consistent with the sharp fall of their stock markets. In Nigeria, foreign portfolio investors withdrew $15 billion from the capital markets in January 2009. Overall, all the countries under study – except Cambodia, which does not have a stock market yet experienced a significant drop in their equity markets over 2008, and this continued during the first quarter of 2009.

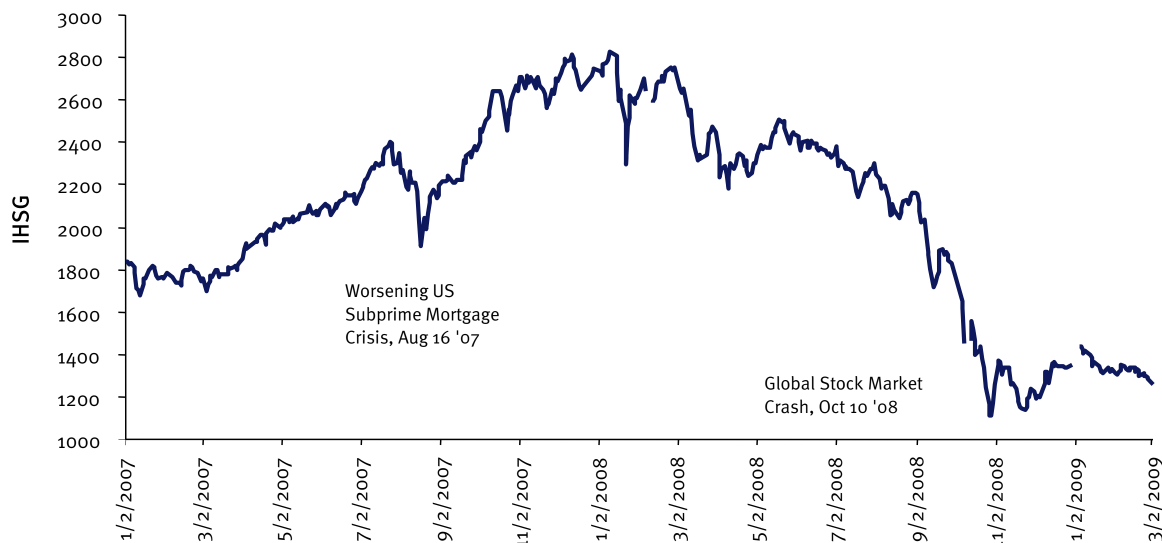
- In Nigeria, stock market capitalisation fell by 46% over 2008, and the All Share Index lost a total share of 67% from March 2008 to March 2009;
- In Bangladesh, the Dhaka Stock Exchange indices experienced negative growth in the period July 2008-February 2009;
- In Kenya, the Nairobi Stock Exchange 20 Share Index dropped by 35% in 2008;
- In Benin, the BRVM10 Index and BRVM Composite Index continued to decline from August 2008 up to Q1 of 2009;
- In Ghana, the All Share Index fell from October 2008;
- In Indonesia, the Stock Exchange Index dropped by 51% in 2008 and market capitalisation at the end of the year fell by 46.4%;
- In Uganda, the All Share Index lost 28% of its value only in October 2008;
- In Zambia, the Lusaka Stock Exchange All Share Index declined by 29% over the period December 2007-December 2008.

Figure 2: Nigeria stock market performance, 2002-2009

Source: Nigeria country case study.

3 In Indonesia corporate bonds issuance experienced a 62% decline in the first half of 2008 compared to total bonds issuance in 2007.

Figure 3: Indonesian Stock Exchange Index, 2007-2009

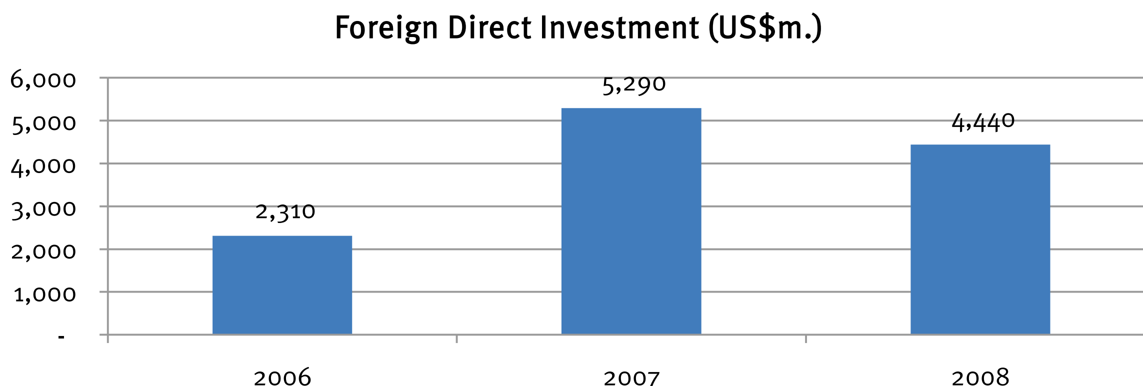


Source: Indonesia country case study.

In a few countries, there was also a considerable decrease in initial public offerings (IPOs), for example Kenya. In the coming months, the countries that are most vulnerable to a further drop in portfolio investment flows are those with a high degree of foreign investor presence in their stock exchanges, including Indonesia, Kenya and Zambia.

FDI inflows have so far been less volatile. The case studies highlight that the crisis has had little impact so far on FDI in Indonesia, Kenya and Uganda. In Indonesia, FDI still increased in Q4 of 2008; in Kenya, FDI in oil exploration and electricity generation projects as well as in telecom companies continued, regardless of the crisis. However, in other countries, there have been the first signs of a future potential decline in FDI. Zambia has experienced a holding back and scaling down on investment projects, especially in the mining sector. In Bangladesh, the number of units registered with the Board of Investment declined dramatically in 2007-2008. In Nigeria, evidence collected by the Nigerian National Petroleum Company (NNPC) indicates that most of the proposed new investments have been stopped and investors have adopted 'wait and see' tactics. There are also some countries where FDI inflows have already declined because of the global financial crisis. From 2007-2008, FDI decreased by 26% in Benin and 16% in Ghana (see Figure 4 below); in Cambodia, there was a decline and even a reversal of FDI growth.

Figure 4: Ghana FDI, 2006-2008 (US$m)

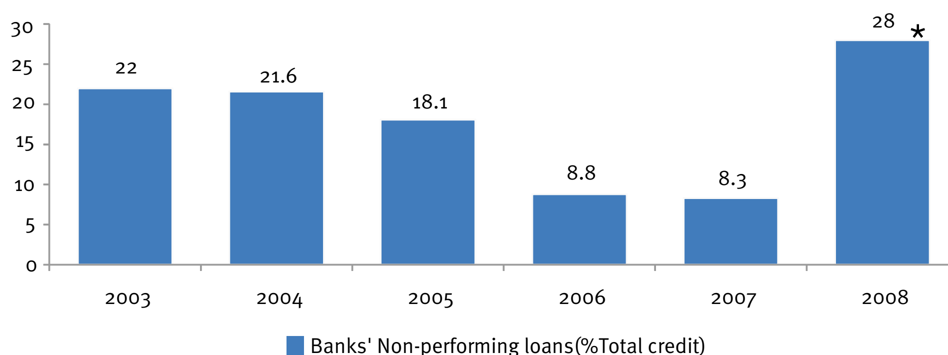


Source: Ghana country case study.

With respect to international bank lending, there has so far been no evidence of a contraction in international claims by banks. However, countries with a high degree of foreign-owned banks are more exposed to a sudden slowdown in cross-border bank lending. Among the countries analysed, Kenya and Uganda appear to be most vulnerable from a banking perspective. Benin and Zambia might be less exposed to a drop in banks' international claims even if their banking system is characterised by a high share of foreign-owned banks. Indeed, few parent banks in Zambia come from the US and UK; in Benin, banks have not relied heavily on foreign borrowing in the past.

Moving to domestic bank lending, there seems to be evidence of increased tightening credit conditions in Cambodia, Ghana and Zambia. Standard banking financial soundness indicators suggest that some countries' banking sectors will be more vulnerable to the crisis than others. While countries such as Cambodia and Indonesia seem to have sound domestic banking systems, over the past year Bolivia, Ghana and Nigeria have experienced a deterioration in their banks' financial soundness indicators, such as return on assets (ROA), return on equity (ROE), risk-weighted capital adequacy ratio (CAR) and ratio of non-performing loans (NPLs). For example, in Bolivia, ratios of NPLs have increased slowly since the beginning of 2009. In Ghana, ROA and ROE worsened from the December 2007 positions of 3.7% and 25.8%, respectively, to 3.2% and 23.7% in December 2008, and the CAR edged down from 14.8% in December 2007 to 13.8% in December 2008. Figure 5 shows the remarkable increase in the ratio of NPLs taking place between 2007 and 2008 in Nigeria.

Figure 5: Nigeria NPLs, 2003-2008 (% of commercial bank loans)



Note: * Indicates estimated value based on the amount of margin loan swept by the crash in the capital market. The total margin loan (N1 trillion) represents 20% of total credit. If the crisis continues, most of the loans will enter the NPL profile.
Source: Nigeria country case study.

Table 1 (below) provides an overview of the effects of the crisis effects (so far) on the different types of private capital flows. Overall, there is evidence that portfolio investment flows and stock markets have been hit hard in all countries, while FDI flows are still resilient in a few of them. International bank lending in our sample has not yet been affected by the crisis. Ghana and Benin seem to be the two most 'multiple-hit' countries. It is worth highlighting that vulnerability to further shocks in private capital inflows differs from country to country, depending mainly on the degree of foreign investor presence in capital markets and banking systems. On the basis of the information provided by the 10 country case studies, Table 2 suggests that Bangladesh, Nigeria and Zambia are likely to be affected by a future decline in FDI inflows at least if commodity prices stay low. On the other hand, Indonesia and Kenya are vulnerable countries in the face of a further drop in portfolio investment flows and stock markets, whereas Kenya and Uganda are particularly exposed to a contraction in international bank lending.

Table 1: Selected countries – have private capital flows declined due to the crisis?

Country	FDI	Portfolio investment	International bank lending	Stock market
Bangladesh	No	Yes	No	Yes
Benin	Yes	Yes	No	Yes
Bolivia	Yes	Yes	No	–
Cambodia	Yes	N/A	No	N/A
Ghana	Yes	Yes	No	Yes
Indonesia	No	Yes	No	Yes
Kenya	No	Yes	No	Yes
Nigeria	No	Yes	No	Yes
Uganda	No	Yes	No	Yes
Zambia	No	Yes	No	Yes

Source: Based on country reports.

Table 2: Selected countries – most vulnerable to further drops in private capital inflows

Country	FDI	Portfolio investment	International bank lending	Stock market
Bangladesh	XXX			
Benin			XX	
Bolivia				
Cambodia				
Ghana				
Indonesia		XXX		XXX
Kenya		XXX	XXX	XXX
Nigeria	XXX			
Uganda			XXX	
Zambia	XXX	XXX	XX	XXX

Source: Based on country reports. Information only provided if sufficient data was available in the country reports. Highly vulnerable ("XXX") countries to further drops in capital flows were classified as those who did not yet experience yet a decline in FDI but reported the presence of first signs of a future potential decline in FDI (e.g. holding back or scaling down on investment projects); high vulnerable ("XXX") countries to further drops in cross-border bank lending are classified as those with a high degree of foreign-owned banks located in crisis-hit countries (medium vulnerable ("XX") countries are those with a high degree of foreign-owned banks but with few parent banks in crisis-hit countries); high vulnerable ("XXX") countries to a further drop in portfolio investment and stock markets are classified as those with a high degree of foreign investors' presence in capital markets.

3. Trade

A key transmission belt of the crisis to real economies is through effects on trade volumes and trade prices. The impact through this channel has been varied. For a start, the overall trade openness of the country case studies varies, with some very open economies (Cambodia, Ghana, Uganda and Zambia) and others that are more protected (Bangladesh and Nigeria). However, all countries, except Indonesia and Kenya, are highly dependent either on one or very few commodities or on a concentrated range of simple manufactures (apparels), so that changes in volumes and prices of individual countries can have widely different effects.

Table 3 shows the share of a number of products in total exports of each of the 10 case study countries.

Table 3: Export product concentration, by country

Country	Examples of products affected	Combined share of total exports (three latest years reported)
Bangladesh	Garments	75.6%
Benin	Cotton	68.6%
Bolivia	Natural gas	48.0%
Cambodia	Garments (HS61/62)	86.0%
Ghana	Gold, cocoa	61.1%
Indonesia	Crude oil, palm oil, natural rubber, aluminium, woven female clothing, cocoa, coffee, copper	24.2%
Kenya	Flowers, vegetables, coffee	20.3%
Nigeria	Crude oil	93.0%
Uganda	Coffee, gold, flowers, cotton	39.2%
Zambia	Copper	67.6%

Source: Comtrade and ITC (for Cambodia) and country sources (Bangladesh), see Meyn and Kennan (2009).

The countries have experienced different types of export shocks to date:

- Commodity price shocks, particularly affecting Nigeria, Bolivia, Benin, Zambia and, to a lesser extent, Uganda, Ghana and Kenya;
- Simple manufacturing shocks (garments), affecting Cambodia and, to some extent, Bangladesh;
- Tourism receipt shocks (Kenya, Cambodia and Zambia);
- Multiple shocks of declining commodity prices and lower demand for simple manufactured goods, affecting countries such as Indonesia.

The following sub-sections discuss each of these in turn. This is followed by a brief summary of the country case studies' import performance and exchange rate developments.

3.1 Commodity price shocks

Nigeria, Bolivia and Zambia have in the past benefited from increased commodity prices. It should be noted, however, that most revenues owed to trade prices and not trade volumes. Now these gains are under threat. As can be seen from Table 4, the prices of all major commodities (except gold and cocoa) peaked in 2008 and have declined drastically since then. Comparing the January 2009 with the March 2009 figures, we can see that building materials (aluminium, copper) and crude oil have been particularly hard hit. However, traditional commodities like natural rubber, coffee, cotton and rice have also experienced price declines (albeit from a high level).

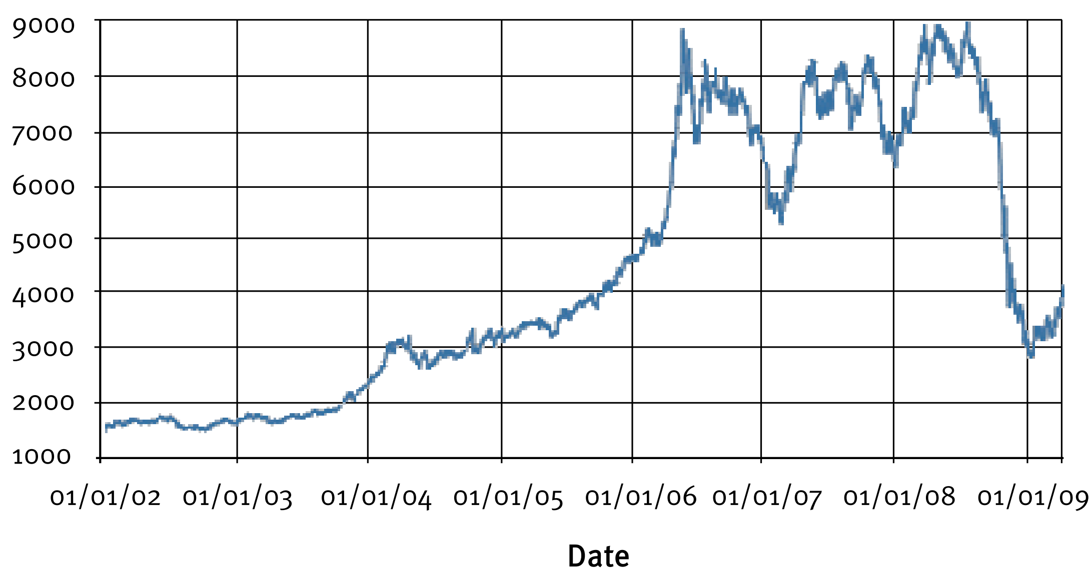
Table 4: Commodity prices, 2005-March 2009

Commodity/unit		2005	2007	2008	Jan. 2009	Mar. 2009
Aluminium	US$/mt	1,988	2,638	2,573	2,150	1,336
Copper	US$/mt	3,180	7,118	6,956	4,98 0	3,750
Gold	US$/troy oz.	423	697	872	800	924
Crude oil	US$/barrel	48	71	97	75	47
Natural rubber	US cent/kg.	142	239	273	198	154
Cocoa	US cent/kg.	158	195	258	233	250
Coffee (Arabica)	US cent/kg.	198	272	308	270	283
Coffee (Robusta)	US cent/kg.	120	191	232	200	168
Cotton	US$/kg.	100	140	157	120	118
Palm oil	US$/ton	420	780	949	550	597
Rice, milled (Thailand; 5%)	US$/ton	258	326	650	589	588
Sugar (raw, free market)	US cent/kg.	15	22	28	30	30

Sources: 2005: IMF IFS CD-ROM; 2008 and 2009: World Bank Commodity Price Data (Pink Sheet), January and April 2009.

It should be noted, however, that prices of some commodities have increased since March. This is particularly true for copper and oil. It is not clear how long this will last.

Figure 6: Copper prices at the London Metal Exchange (US$)



Source: London Metal Exchange.

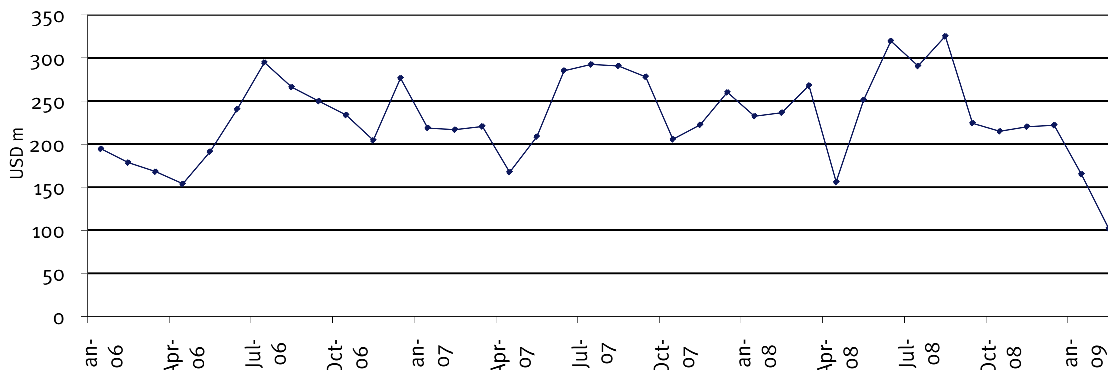
The price of oil fell from an average of $100 in 2008 to $40-45 in the first quarter of 2009, so Nigeria faced a big shock. Similarly, falls in the price of copper (which lost almost 50% from 2008 to March 2009) have affected Zambia. Bolivia is expected to face decreased gas prices/exports in 2009, although no associated declines have so far been observed.

The traditional commodity exporter, Uganda, faced large declines in the value of its exports (e.g. minus 10.3% in September 2008 compared with a year earlier). This can be explained by a combination of declining prices for coffee, flowers and cotton. In addition, the country has faced declining demand for its commodities since November 2008.

3.2 Manufactured export declines

Cambodia reports that garment export values at the beginning of this year have already dropped at an alarming rate, from a monthly average of $250 million in 2008 to $100 million in January 2009. Figure 7 presents Cambodia's most recent garment export data.

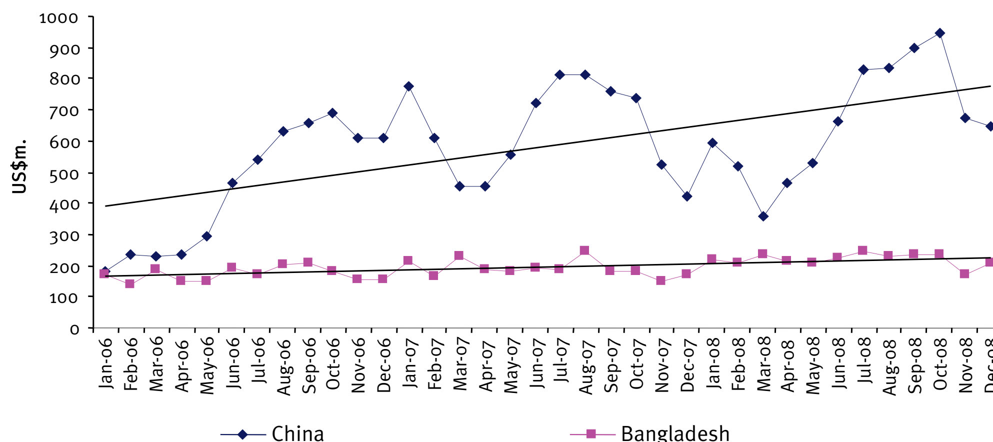
Figure 7: Cambodia's garment exports to the US, Jan 2006-Jan 2009 (US$m)



Source: Cambodian Ministry of Commerce, 6 March 2009.

In comparison, Bangladeshi garment exporters are reported to have fared well so far. Figure 8 presents US imports of Bangladeshi and Chinese garments.

Figure 8: US imports of Bangladeshi and Chinese garment imports, 2006-2008 (US$m)



Source: Computed from USITC database.

Bangladesh's 'good performance' compared with Cambodia has been explained by the 'Walmart' effect: Bangladesh serves the lowest price range and US consumers are buying cheaper products in response to the crisis. In Cambodia, producers have tried to position themselves in higher-value niche markets which may in the short run be affected more by reduced consumption. So it is important to understand not only which countries export what commodities, but also how countries are positioned in sector segments.

3.3 Multiple-hit economies

Indonesia is one of the 'multiple-hit' countries, since it is a major exporter of a broad range of commodities/manufactured products, all of which have been affected by declining demand and prices. However, Indonesia is less export dependent than the other case study countries (with exports accounting for 10% of gross domestic product – GDP), and its exports are also more diversified. Its commodity markets have experienced a large price decline since the highs of 2008, and commodity

and manufactured exports (particularly electronic products) have been affected by a lagged response to reduced demand in developed country markets. Electronic products, which account for 15% of total exports, report a fall of 25% (in value terms) in January 2009 compared with January 2008.

3.4 Imports and exchange rate developments

The country reports paid less attention to the impact of the crisis on imports than on exports. But it is clear that several countries have benefited from falls in oil and food prices, with implications for inflation and macro economic management, more generally.

An abundance of foreign exchange reserves as a result of increased hydrocarbon (natural gas) revenues due to high prices, has put pressure on Bolivia's exchange rate, which appreciated by 24% between 2007 and 2008. This has been exacerbated by the depreciation of the currency of large neighbouring economies such as Brazil. However, despite an increase in imports, mostly of consumer goods, Bolivia maintained a large current account surplus into 2008. Although the government devalued the nominal exchange rate between June 2008 and October 2008, since then it has maintained a fixed exchange rate vis-à-vis the US dollar in order to avoid inflationary pressure. However, this limits the country's ability to take counteractive measures to mitigate the impact of falling exports and a worsening trade balance.

Benin is part of the West African Monetary Union (WAMU). The CFA Franc is fixed to the euro (see Table 5). This severely limits the ability of the country to use its exchange rate in response to the crisis. Volatile exchange rate developments between the euro and US dollar recently have affected the competitiveness of cotton exports and prices received by exporters.

Indonesia has a flexible exchange rate which lost 17% of its value in the period 2007-2008, and a further 10% between January 2009 and March 2009. As a result of government intervention to defend the value of the currency, in response to capital outflows, foreign exchange reserves were depleted. The exchange rate depreciation may also explain why imports have fallen: total import values fell by 24% in January 2009 (year on year), mainly for intermediate, capital and consumer durables. In order to support foreign exchange reserves, the government has recently introduced new measures to enable commercial banks to sell export receivables to the central bank, with the aim of increasing the proportion of letters of credit opened with domestic banks and thus take pressure off the rupiah.

Ghana suffered heavily from high fuel/food prices, which worsened its trade deficit between 2003 and 2007 by 478%. The Ghanaian cedi has lost substantial value vis-à-vis the euro and the US dollar since 2008 (Table 5), which reduces the country's potential benefits from lower fuel and food prices. Bangladesh reports some fiscal space as a result of lower food and fuel prices since 2008. The country maintains a managed float vis-à-vis the US dollar. As the US dollar has depreciated recently, the Bangladeshi taka has appreciated vis-à-vis other currencies (including the euro and the rupiah: see Table 5). Given Bangladesh's weakening competitive position relative to other garment exporters such as India, there has been discussion of a more proactive exchange rate intervention. However, a policy-induced depreciation could lead to higher prices of imports and may promote inflationary pressure, which would be a risky strategy for the food net importer Bangladesh.

Cambodia reports a slump in the growth of imports in value terms, mainly for intermediate and capital goods, such as vehicles, as opposed to food.

There is a direct relationship between the exchange rate of Zambia and copper prices. Thus, Zambia's free floating exchange rate experiences high volatility. However, given efforts to promote other non-traditional exports (such as fresh flowers), a depreciation of the kwacha vis-à-vis the US dollar should increase the export competitiveness of these sectors. Despite political pressure to reconsider its policy stance (so as to take account of the rising costs of imports), the government has maintained a flexible market-determined exchange rate, which is seen as crucial to respond to the crisis.

Table 5: Country case study nominal exchange rate developments, March 2006-2009

Currency	Date	Euro 1 =	US$ 1 =
	2006 (20 Jan)	80.3801	66.4551
	2007 (20 Jan)	93.6201	72.1876
	2008 (20 Jan)	102.48	70.068
Bangladeshi taka	2009 (20 Jan)	93.0037	70.1253
	(20 Feb)	88.9068	70.3811
	(20 March)	94.1969	69.5637
	(20 April)	91.303	69.964
	2006 (20 Jan)		542.417
	2007 (20 Jan)		526.056
	2008 (20 Jan)		456.8
Benin CFA franc BCEAO	2009 (20 Jan)	655.957	505.463
	(20 Feb)		529.642
	(20 March)		494.03
	(20 April)		513.54
	2006 (20 Jan)	9.7368	8.05
	2007 (20 Jan)	10.7618	8.2981
	2008 (20 Jan)	11.293	7.7213
Bolivian boliviano	2009 (20 Jan)	9.516	7.1751
	(20 Feb)	9.075	7.184
	(20 March)	9.5799	7.0747
	(20 April)	9.3762	7.1848
	2006 (20 Jan)		4169.2
	2007 (20 Jan)		4185.71
	2008 (20 Jan)		4027.8
Cambodian riel	2009 (20 Jan)		4204.59
	(20 Feb)		4208.67
	(20 March)		4141.2
	(20 April)		4199.6
	2006 (20 Jan)	11067.5	9150.14
	2007 (20 Jan)	12465.7	9611.91
	2008 (20 Jan)	14520.1	9927.7
Ghanaian cedi	2009 (20 Jan)	17550.4	13233.1
	(20 Feb)	17688.5	14002.7
	(20 March)	18987.6	14022.2
	(20 April)	19659.3	15064.6
	2006 (20 Jan)	11464.8	9478.67
	2007 (20 Jan)	11779.3	9082.65
	2008 (20 Jan)	13822.7	9450.9
Indonesian rupiah	2009 (20 Jan)	14719.8	11098.8
	(20 Feb)	15020.5	11890.6
	(20 March)	15949.5	11778.6
	(20 April)	15051.9	11534.0
	2006 (20 Jan)	87.1744	72.0724
	2007 (20 Jan)	91.1723	70.3002
	2008 (20 Jan)	101.62	69.48
Kenyan shilling	2009 (20 Jan)	109.579	82.6235
	(20 Feb)	104.441	82.6783
	(20 March)	113.681	83.9526
	(20 April)	106.162	81.35
	2006 (20 Jan)	158.132	130.737
	2007 (20 Jan)	171.414	132.172
	2008 (20 Jan)	174.749	119.48
Nigerian naira	2009 (20 Jan)	196.103	147.863
	(20 Feb)	188.438	149.173
	(20 March)	201.44	148.762
	(20 April)	198.373	152.01
	2006 (20 Jan)	2209.05	1826.36
	2007 (20 Jan)	2394.08	1846.0
	2008 (20 Jan)	2517.1	1721.0
Ugandan shilling	2009 (20 Jan)	2653.83	2001.0
	(20 Feb)	2508.75	1986.0
	(20 March)	2763.74	2041.0
	(20 April)	2859.25	2191.0
	2006 (20 Jan)	4043.59	3343.08
	2007 (20 Jan)	5736.56	4423.28
	2008 (20 Jan)	5554.15	3797.5
Zambian kwacha	2009 (20 Jan)	6751.74	5090.85
	(20 Feb)	7222.68	5717.68
	(20 March)	7656.17	5654.02
	(20 April)	7564.56	5796.6

Note: BCEAO = Central Bank of West African States; CFA = French Community of Africa.

4. Remittances and migration

4.1 Remittances

Remittances are an important source of external capital for many low-income countries, so it is important to monitor remittances and migration. Data from the World Bank suggest that the yearly upward trend in remittances has almost halted for all countries except for Bangladesh (Table 6), while the data above suggest the halt began in the fourth quarter of 2008. The data also suggest that in around half of the countries remittances represent a fairly sizeable component of the economy (above 5%) and, in all cases except Ghana, Zambia and Indonesia, they account for over 4% of GDP.

Table 6: Remittance inflows, 2003-2008 (US$m)

	2003	2004	2005	2006	2007	2008e	*GDP (%) 2007*
Bangladesh	3192	3584	4314	5428	6562	8979	*9.5*
Benin	55	63	173	224	224	271	*4.1*
Bolivia	159	211	346	612	927	927	*6.6*
Cambodia	138	177	200	297	353	353	*4.2*
Ghana	65	82	99	105	117	128	*0.8*
Indonesia	1489	1866	5420	5722	6174	6500	*1.5*
Kenya	538	620	805	1128	1588	1673	*5.4*
Nigeria	1063	2273	3329	5435	9221	9979	*6.7*
Uganda	306	311	323	665	849	875	*7.2*
Zambia	36	48	53	58	59	59	*0.5*

Note: e = estimated.
Source: World Bank (March 2009 revision).

The case studies suggest that the first signs of the impact of the crisis on remittances have already been visible in a number of countries since the second half of 2008. This seems to be especially the case in Africa, as Kenya and Ghana show substantial year on year reductions in the second half of 2008. Further growth in remittances has slowed in the last quarter in all countries. Data for the early months of 2009 (available for Bangladesh and Kenya) further indicate that the sharp decline in remittance growth trend has continued in 2009. This evidence, together with lower emigration flows (Bangladesh, Cambodia), points to a likely drop in remittances in 2009 across all developing regions.

Table 7: The effects of the crisis on remittances

	Remit 2007 (US$m)	Remit 2008 (US$m)	2006-2007 change	2007-2008 change	remit/ GDP 2007	remit/ GDP 2008	Change Q3 Q4 quarter 2007	Change Q3 Q4 2008	Change Q4 2006 - Q4 2007	Change Q4 2007 - Q4 2008
Bangladesh	5978	7915		32%	8.8%	10.0%	7.0%	-4.3%		23.0%
Benin						3.1%				
Bolivia	1040	1089	97%	5%			5.7%	-10.3%	60.0%	-7.1%
Cambodia	353	353	19%	0%	4.2%	3.4%				
Ghana	1834	1899		4%			15.0%	16.4%		-10.3%
Indonesia	4833	5464	36%	10%			13.0%	-1.9%	0.1%	-1.9%
Kenya	574	611	41%	7%			-17.7%	6.4%	50.6%	1.0%
Nigeria	17,500	30,450	72%	72%			3.8%	1.8%	100%	60.2%
Uganda					4.0%	3.4%				
Zambia	59		3%		0.5%	0.5%				

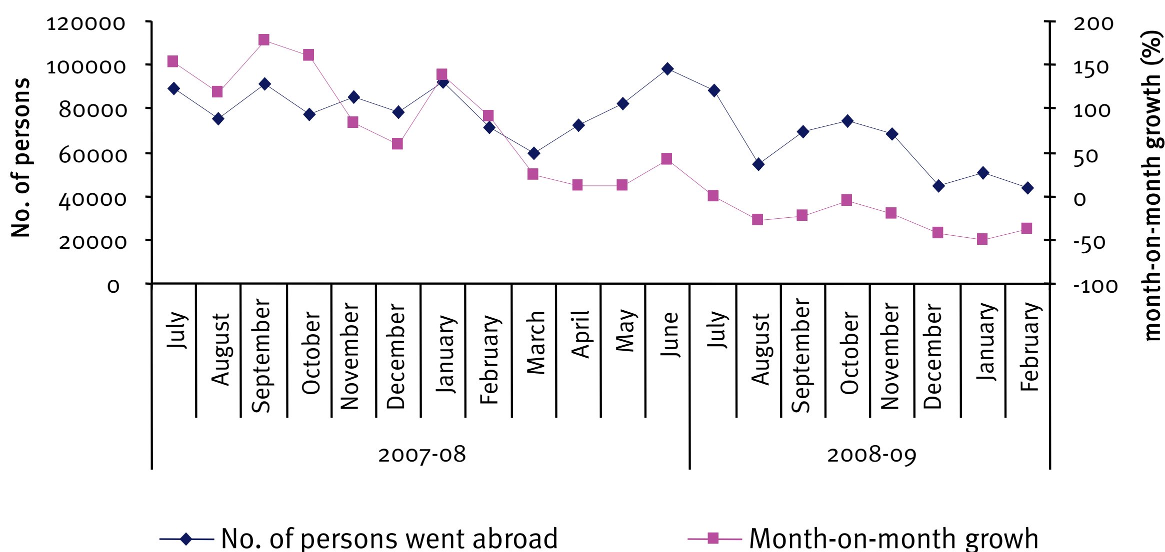
Source: Based on country case studies.

Table 7 provides an overview of the evidence so far of the possible drop in remittances. Although most countries had positive growth rates in remittances in 2008, these rates have been usually much lower than in the year before. For instance, the growth rate in Bolivia was only 5% against the 97% increase in the year before, and the increase in remittances to Cambodia declined from 19% in 2007 to zero in 2008. This has meant that the share of remittances in GDP has usually declined as well (although exceptions like Bangladesh do occur). Perhaps the most telling indicators relate to the quarterly changes in remittance inflows. All countries except Kenya and Ghana experienced a substantially lower growth in remittances between the third and the fourth quarters of 2008 relative to the same period in 2007. In various countries, positive growth in 2007 turned negative in 2008. In the case of Ghana and Kenya, the drop in remittances started already in the third quarter of 2008. In fact, in Kenya, remittances in the last quarter of 2008 were at the same level as those in the last quarter of 2007, while the increase in remittances between the same quarters in 2006 and 2007 was 50%. In Ghana, remittances in the fourth quarter of 2008 were lower than in the same quarter in 2007.

4.2 Migration

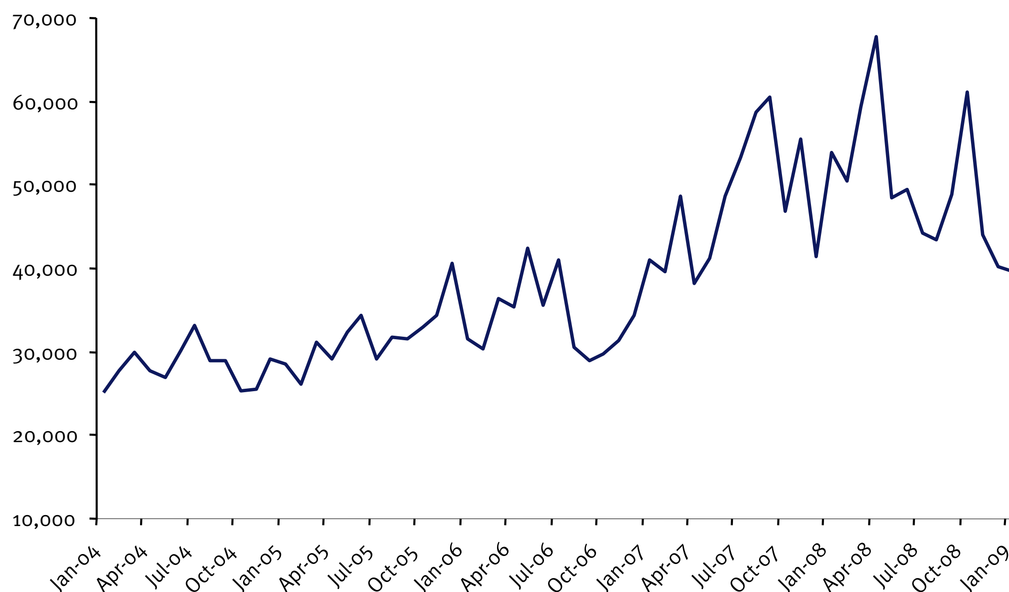
It is difficult to find proper evidence on migration and return migration. Only the Asian case studies present recent evidence on emigration and return. Indonesia experienced a 54% increase (quarter to quarter) in assignment of workers to overseas destinations in the last quarter of 2008. However, the effects of the crisis on sectors of employment for Indonesian migrants in Malaysia and Saudi Arabia may indicate an increase in return migration to Indonesia in the next few months. This drop is already visible in Bangladesh, where data suggest that emigrant flows started to decline in July 2008 (Figure 9). Saudi Arabia and Kuwait have virtually ceased to issue new work permits to Bangladeshi workers, and the United Arab Emirates (UAE), another major destination, has also shown lower demand for migrant workers, with the number of workers going to the UAE in February 2009 lower by 5000 compared with January 2009. The number of Cambodian workers destined for Malaysia and Thailand dropped 10% in 2008. Moreover, Malaysia has announced a temporary suspension of foreign labour employment in the industrial sector amid pressure from local trade unions and a hike in the levy on foreign workers, which is likely to negatively affect number of Cambodian perspective emigrants.

Figure 9: Number of Bangladeshis leaving for jobs abroad, 2007/08-2008/9



Source: Bangladesh country case study.

Figure 10: Remittances to Kenya, 2004-Jan 2009 (US$, '000)



Source: Kenya case study.

Table 8 provides evidence from the country case studies.

Table 8: The effects of the global financial crisis on remittances and migration

	Remittances	Migration
Bangladesh	Remittances amounted to $7.9 billion in FY2007/08; robust flows with record inflow in January 2009; but this is likely to slow down in the face of fewer migrants leaving Bangladesh in the next months.	Increase in out-migration over the past two years (1.7 million) with total number of migrant workers abroad at 6.1 million, but significant slowdown in out-migration in recent months. The Malaysian government revoked 55,000 Bangladeshi permits.
Benin	Remittances are not among the most important external sources of capital, and have declined after the peak in 2006.	
Bolivia	Robust growth in remittances since 2004, equivalent to 6% of GDP. Growth in remittances seems to start to halt in the last quarter of 2008.	
Cambodia	Remittances fell from 4.2% to 3.4% of GDP in 2008 and are expected to decline further in 2009.	Many Cambodians abroad are employed in unskilled and informal occupations, which are likely to be hit most harshly by the crisis. There are around a quarter of a million Cambodians abroad, mainly in Thailand (over 80% of them illegal). World Bank estimates 349,000 Cambodians abroad in 2005, with active support for migration by the government. But emigration is already declining in 2008 as Malaysia and Thailand are tightening their borders.
Ghana	Decline in remittances in the second quarter of 2008. Further, Money-Gram in Ghana reported a drop from $8 million remitted in October 2008 to $6 million in February 2009, and a 10-13% decline in money transfer between January 2008 and January 2009.	Migrants are concentrated in the US and Europe.

Table 8: cont'd

	Remittances	Migration
Indonesia	Growth in remittances halted in the last quarter of 2008.	Total number of Indonesian workers abroad was 4.4 million in December 2008 (almost all in Asia: Malaysia, Saudi Arabia and Southeast Asia), and migration flows were predicted to reduce, with many overseas layoffs in the near future owing to worsening conditions in key sectors for Indonesian migrants, such as palm oil and construction in Malaysia.
Kenya	Remittances account for 2.7% of GDP. There has been a fall in remittances in the second half of 2008; showing a 12 % drop, between the 2007 remittances of $316.6m (July-December 2007) and the 2008 remittances of $281.7m (July-December 2008).	There are more than 200,000 Kenyans abroad, but also a lot of refugees fleeing to Kenya from the region. The stock of migrants from Kenya may decline.
Nigeria	Received a large remittance inflow, but there are some signs of a decline in remittances in the last quarter of 2008.	
Uganda	Remittances accounted for 3.4% of GDP in 2007/08 (down from 4% in 2006/07), and constitute a key source of livelihood for 2% of households. Remittances (as % of GDP) have been declining since 2005/06.	
Zambia	Remittances are not a significant source of foreign capital but have grown in relative importance (and in size) between 2003 and 2007. This growth seems to have halted in 2008.	

5. Official development assistance

Some countries are more aid dependent (e.g. Benin, Ghana and Cambodia) than others (e.g. Kenya and Nigeria). Table 9 plots International Monetary Fund (IMF) estimates of aid for 2008, the World Development Indicators (WDI) actual for 2005 and the country report data. We should bear in mind that these can be variable (e.g. data for Nigeria could include debt relief numbers for one specific year).

Table 9: Official Development Assistance, 2008 (% of GDP)

Country	IMF (2008) ODA % GDP	WDI 2005	Country report	Comments in country file
Bangladesh	1.2	2.1		Although the role played by aid has declined over the past years in Bangladesh, it still accounts for about half of Bangladesh's expenditure on development budget. The figures for July-December FY2008/09 indicate a decline of -8.0% in net foreign aid disbursement in Bangladesh, with gross disbursement falling slightly from $903.2 million in FY2007/08 (July-December) to $898.3 million in FY2008/09 (July-December). Commitment figures for FY2008/09, however, look promising, with the highest ever commitment ($1.34 billion) by the World Bank for the current fiscal year.
Benin	8.3	8.2		
Bolivia	1.2	6.5	1.6 % of GDP (2007)	The foreseen reduction in government revenues that will result from the international crisis will reinstate the need for aid flows.
Cambodia	6.4	9.1	9% of GDP in 2007	Accounted for 80% of the government's capital expenditures in 2007, donors to the country pledged in December 2008 development assistance worth $951.5 million. While the amount of foreign aid for 2008 was originally estimated at $887.9 million, the actual amount disbursed reportedly was only $690 million
Ghana	7.5	10.6	12% of GNI	50% of Ghana's development budget; aid flows are expected to reach about $2 billion in 2009, the highest since the turn of the millennium. There are no visible signs that the crisis has affected aid commitments for 2009.
Kenya	0.8	4.1	4 % of GDP (2006)	Kenya is not considered a highly aid-dependent economy. ODA's importance is decreasing and low compared with neighbouring countries.
Nigeria	0.7	7.4	Less than 2% (2007)	Although ODA accounts for less than 2% of the total budget in the country, it can be very important in the social sector and particularly in the lower tiers of government
Uganda	4.9	14.0		There have been declines in aid in Uganda where foreign aid decreased from $223.29 million during 2007 Q4 to $178.9 million in 2008 Q4. Moreover, inflows to non-governmental organisations (NGOs) in Uganda declined by 5.3% between 2007 and 2008, with the decline more pronounced since October 2008.
Zambia	4.5	13.9	13.2% of GDP in 2006	Government budget depends significantly on donor support; Zambia continued to receive ODA support during 2008, despite the crisis. This is likely to continue even during 2009. The country received all the ODA pledged in 2008: donors honoured their pledges because they had already made their commitments and disbursement plans long before the crisis set in. ODA disbursement plans are usually made on a long-term basis and in Zambia most ODA is already committed up to 2010.

Source: IMF (2009), WDI and country reports

So far, there has been little evidence of a pullout of aid, with several country reports suggesting that donors are engaged in long-term commitments (e.g. Zambia). Nonetheless, Table 9 shows that there have been recent declines in aid in Uganda and Bangladesh, although it is too early to associate these with the global financial crisis.

6. Balance of payment shock

The country studies were not asked specifically to examine the nature and extent of the balance of payments (BoP) shock. But clearly there is a capital account shock as countries lose out on portfolio investment and to some extent FDI, although there is *so far* little evidence that reductions in aid have exacerbated the BoP shock considerably. Countries are already facing or will be facing declines in export revenues and remittances, so there is definitely a negative current account shock, although some countries also face lower import values (owing to lower food and oil prices). Current account deficits will eat into the reserves, which are worryingly low for some countries.

The changes in the IMF projections have indeed changed the forecasts in reserves. There are expected declines in reserves in oil and gas exporters, such as Bolivia and Nigeria, but increases in oil importers, such as Kenya, and no changes in Bangladesh.

Table 10: Level of and change in national reserves expressed in months of imports, 2008-2009

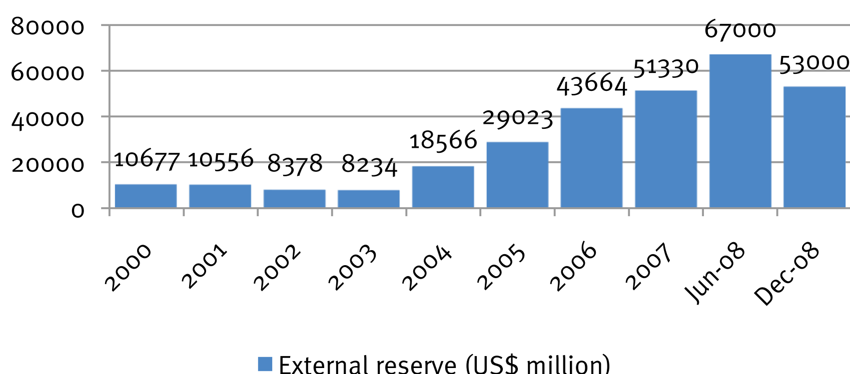
	Reserves 2008 (in months of imports)	Changes 2009 projections and 2008 actuals (in months of imports)
Bangladesh	3.0	0
Benin	7.3	-0.6
Bolivia	15.7	-0.7
Cambodia	3.0	-0.4
Ghana	1.6	-1.2
Kenya	2.9	0.4
Nigeria	12.8	-3.9
Uganda	8.1	-0.6
Zambia	2.6	0.2

Source: IMF (2009).

These patterns are consistent with findings from the country case studies. For example, the Bangladesh country case study suggests that the BoP still looks healthy, although the prospects are dim. The development of the BoP situation will hinge on the extent of deceleration in import payments in view of falling global commodity prices, and the impact of the ongoing crisis on export earnings and remittance flows, and also the aid situation.

The Nigeria study suggests that it faces negative BoP consequences. As of January 2009, foreign portfolio investors have withdrawn some $15 billion from the country's capital markets. The Nigerian currency, the naira, has depreciated against the US dollar, and foreign reserves dropped from $67 billion in June 2008 to $53 billion in December 2008 (see Figure 11 below). Export revenues have fallen massively too.

Figure 11: Nigeria's external reserves, 2000-2008 (US$m)



Source: Nigeria case study.

7. Growth effects

The country case studies examined growth effects in different ways. Most discussed IMF, World Bank and/or government macroeconomic forecasts; some discussed growth performance and prospects of key sectors; and a few discussed growth on the basis of demand components (consumption and investment) or other growth diagnostics.

Analysing growth effects requires a much more thorough analysis of the details of the transmission mechanisms, but some key patterns have emerged:

- A general growth slowdown throughout 2008 is visible in the statistics. For instance, Indonesia's year on year growth rate declined in 2008 Q4.
- There is a general consensus among the country case studies that 2009 will see worse effects. This is consistent with IMF forecasts that several countries will see declining GDP per capita in 2010.
- Different sectors are affected differently (tourism in Kenya and Cambodia; manufacturing in Asian countries; and commodities in Bolivia and Zambia; etc).
- Manufacturing has been hit hard, especially in Asia, which specialises in exports such as garments (Cambodia) and electronics (Indonesia).
- Countries whose growth has been dependent on export sectors have suffered more. For example, Cambodia has suffered greatly but, although Indonesia's manufacturing exports and sector were affected, overall consumption and services have been important in driving recent growth there.
- There are major discrepancies between government expectations and forecasts by the World Bank and IMF. For example, Nigeria's forecasts have been slashed recently by the IMF Regional Economic Outlook (REO). The government of Benin was still forecasting 6% growth in 2009, whereas the IMF says that half of this is more likely, and that in per capita terms growth may now by close to zero.

Some studies include own model-based simulations on growth effects (e.g. Bolivia, Benin and Nigeria); some describe models of others (Indonesia).

Table 11: The growth implications of the crisis

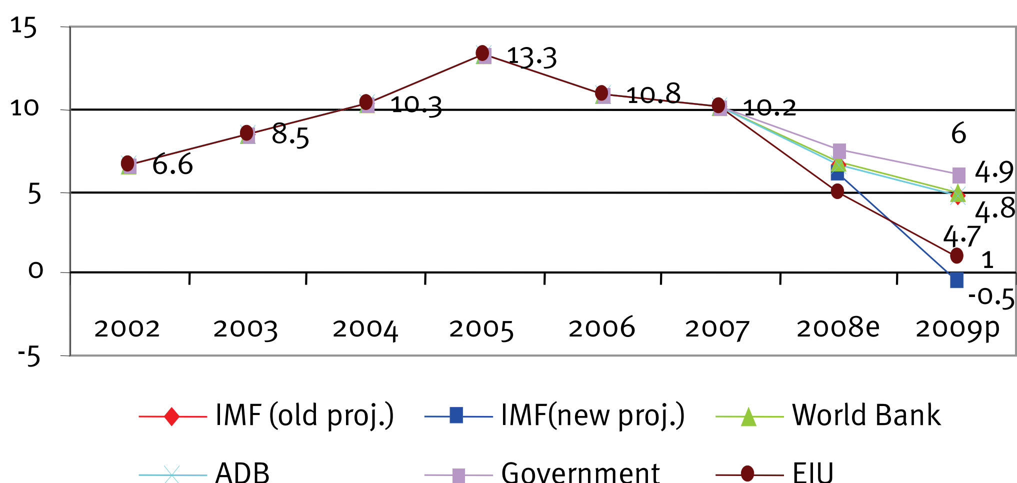
	March 2009 forecast for 2009 -spring 2008 GDP projections for 2009	IMF March projections/ actual for 2008	IMF March projections for 2009	IMF REO 2009 GDP pc growth	IMF REO 2010 growth	Comments from country studies
Bangladesh	-1.2	5.0	5.3			Government projections of 6.5% growth for 2008/09, against lower forecasts by World Bank (4.8% for worst case scenario).
Benin	-2	5.1	3.6	0.6	-0.2	Government still expects 6.1% growth
Bolivia	-1	5.9	4.0			Growth driven primarily by three sectors: mining, hydrocarbons and construction. Exports are expected to stagnate in coming months, and even decrease. Hydrocarbons exports have already shown a downward trend in past year because of production constraints. Brazil is trying to reduce imports of natural gas from Bolivia, as it has discovered sizable reserves of oil and natural gas internally.

Table 11: cont'd

	March 2009 forecast for 2009 -spring 2008 GDP projections for 2009	IMF March projections/ actual for 2008	IMF March projections for 2009	IMF REO 2009 GDP pc growth	IMF REO 2010 growth	Comments from country studies
Cambodia	-2.2	3.3	2.9			Real GDP to decline from 10.3% in 2007 to 6.4% in 2008 and to somewhere between -0.5% (new IMF estimate) and 6% (government estimate) in 2009. All sectors that were important drivers of recent growth in Cambodia (garments, construction, tourism) have been hit hard.
Ghana	-3.4	6.5	4.0	1.9	2.1	Government projects 5.9% of GDP growth for 2009; services share in GDP increased recently, but agriculture is the only sector to have a projected acceleration in growth in 2009
Indonesia			2.5			Indonesia showed resilience until September 2008, but since then has experienced deteriorating economic performance; quarterly economic growth fell from 6.1% to 5.2% on a yearly basis and export growth was only 1.8%, the slowest since 1986. There has been a downward revision to the country's economic growth in 2009 to 4-4.7% (5% in 2008). Growth in manufacturing hit most, domestic services fared well.
Kenya	-0.4	2.0	3.0	1.2	2.2	GDP grew at 7% in 2007 and slowed to 4% in 2008 (owing to political turmoil); now expect only 3% growth in 2009. Real GDP grew by 2% in 2008Q3 year on year, compared with 3% in 2008Q2. The worst performance compared with 2007Q3 was in hotels and restaurants owing to the poor performance of tourism (-35%), but this may also owe to political turmoil. This is followed by agriculture and manufacturing with negative growth.
Nigeria	-5	5.1	3.6	0.1	-0.1	GDP growth rate increased from 6.2% in 2007 to an estimated 6.8% in 2008 despite the crisis (non-oil growth at 9.5%, oil sector declined by 4.5%); GDP growth rate 7-9% is 'still possible in 2009 despite the economic crisis'.
Uganda	-1	9.5	6.0	2.5	1.8	Government expects growth to decrease from 8.9% in 2007/08 to 6-7% in 2008/09; EPRC expects 5.6%. Reduction in growth will come mainly through reduction in export growth and lower private consumption and investment. Reduction in growth is located in manufacturing, construction and trade sub-sectors, the main drivers of growth.
Zambia	-2.4	5.8	4.0	1.6	2.1	Economy performed well during the first half of 2008 but in third quarter, when prices of copper dropped, growth declined and actual growth was lower than expected. Original growth forecasts revised downwardsin light of the worsening crisis. Sectors affected include mining, tourism, manufacturing and construction activities connected to mining sector.

There are considerable rigidities and uncertainties in the growth forecasts. For example, Cambodia is experiencing a rapid slowdown. The IMF expects growth to fall from 10.3% in 2007; real GDP growth is estimated to drop to an average of 6.4% in 2008 and to somewhere between -0.5% (new IMF estimate) and 6% (government estimate) in 2009 (see Figure 12).

Figure 12: Cambodian real GDP growth, actual and forecasts, 2002-2009 (%)



Source: Cambodia case study.

Indonesia showed resilience towards the crisis up until September 2008, but during October-December 2008 the country's economy experienced deteriorating economic performance; quarterly economic growth fell from 6.3% in 2008 Q1 to 5.2% 2008 Q4 on a yearly basis and export growth was only 1.8%, the slowest since 1986. In 2009, the economy is estimated to grow 4-4.5%, but with large variations in expectations. Table 12 shows forecasts for GDP in Indonesia for 2008 and 2009 by various institutes.

Table 12: Growth projections for Indonesia, 2008 and 2009 (%)

Institution	2008	2009
Asian Development Bank (ADB)	6.0	4.4
World Bank	6.0	4.5
IMF	6.0	4.5
The Economist	6.0	3.3
Bank Indonesia*	6.2	3.0-4.0
Government of Indonesia	6.2	4.0-4.5

Note: * Bank Indonesia just revised its projection (27 March 2009).
Source: Coordinating Ministry for Economic Affairs (2008), Bank Indonesia (2009, various).

8. Poverty and human development implications

Global studies suggest large poverty effects. DFID estimates that, by December 2010, the number of people living on less than $1.25 a day will be about 90 million higher as a result of the financial crisis. The World Bank estimates the number of new poor in developing countries will range from 46 million (on less than $1.25) to 53 million (on less than $2 a day) (Theis, 2009). The ADB estimates that a reduction in growth of GDP per capita of three percentage points would result in 98 million additional poor people in 2010 in Asia as compared with a baseline scenario of no economic slowdown (Hasan et al., 2009). These figures indicate that many people who were previously not poor will be pushed into poverty, and others who were poor will become poorer.

It is not easy to understand the poverty and human development impacts of the crisis. The crisis has not yet fully transmitted to the real economies of developing countries, nor are there timely, relevant and reliable data available to measure the impact. Many of the case study countries have already faced a food and fuel crisis and have their own internal political, economic and social dynamics. This makes it difficult to attribute the apparent 'impacts' solely to the financial crisis. Table 13 shows the expected increase in the number of poor in 2009 as a result of the crisis, by taking the changes in GDP forecasts and multiplying it with the number of poor people and the poverty elasticity with respect to growth.

Table 13: Expected poverty effects of global financial crisis in 2009

Country	March 2009 forecast for 2009 - IMF spring 2008 GDP projections for 2009	Poverty elasticity with respect to growth (case studies or literature)	Household poverty count % (latest year, WDI)	Population (million in 2007 WDI)	Poverty increase '000s: change in growth rates * elasticity * household poverty count
Bangladesh	-1.2	0.38	40	158.6	289.3
Benin	-2	1	29	9	52.2
Bolivia	-1	0.2	65.20	9.5	12.4
Cambodia	-2.2	1	35	14.4	110.9
Ghana	-3.4	1	28.50	23.5	227.7
Indonesia	-1	1.75	16.70	225.6	659.3
Kenya	-0.4	0.74	52	37.5	57.7
Nigeria	-5	2	34.10	148	5046.8
Uganda	-1	2	37.70	30.9	233.0
Zambia	-2.4	0.2	68	11.9	38.8

Sources: Country case studies, WDI www.uneca.org/acgs/mdgs/GrowthInequalityPoverty.pdf (Nigeria), www.chronicpoverty.org/pubfiles/economic-growth-grant-uganda.pdf, www.chronicpoverty.org/pdfs/51Mosely.pdf, Benin elasticity assumption.

The above table does not tell us how poverty might increase. Fortunately, the case studies discuss five transmission mechanisms in more detail:[4] public and private transfers, domestic prices, assets, employment and access to goods and services.

4 A similar framework for analysis is provided by Lustig and Walton (2009).

8.1 Employment

Loss of employment5 is one feature of the global financial crisis in the case studies. The loss of employment and income has important poverty and human development implications. The case studies suggested the following:

- A recorded 15,000 construction workers in Cambodia were laid off in mid-2008. This has led to some de-urbanisation. The garment industry has been hardest hit, with approximately 51,000 people laid off (many of these women) in the six months between September 2008 and March 2009.
- FDI-generated employment in Ghana dropped from 15,526 in the fourth quarter of 2007 to 10,022 in 2008 (Q4).
- In Indonesia, by February 2009, 37,905 workers had been laid off as a result of the current crisis.
- In Zambia, 8,100 workers in the mining sector lost their jobs in 2008.
- A simulation exercise in Bolivia predicts rising unemployment as a result of lower remittances (3.0%) and mining exports (1.6%).
- Following the International Labour Organization (ILO) methodology (2002), incremental job opportunities in Bangladesh may be squeezed by 500,000 compared with the expected level, if GDP growth slows down to the World Bank's projected level of 4.8%.
- In Kenya, the labour-intensive horticultural industry, which employs an estimated 3 million people, had to cut around 1200 jobs this year and suffered a 35% drop in exports of flowers.

8.2 Private and public transfers

The drop in remittances has implications for development. In several countries (Ghana, Kenya, Uganda, Bangladesh), the construction sector benefits from remittances, as this is a labour-intensive sector and usually a relatively large employer. Second, as one of the main uses of remittances is consumption of goods and services (Uganda, Bangladesh, Cambodia, Indonesia), there may be direct effects on poverty levels if the affected households are close to the poverty line and remittances finance a fairly large share of their consumption. For example, remittances account for nearly 10% of the total consumption expenditure of remittance-receiving households in Uganda. In the case of a relatively remittance-dependent country like Bolivia, the county case study estimates suggest that a 50% drop in remittances would cause an increase in unemployment by 3% and a reduction of GDP by 2.8%. In Kenya, the World Bank estimates that remittances have reduced the number of people living in absolute poverty by 8.5% (World Bank, 2006, as cited in Kenya report).

8.3 Prices and wages

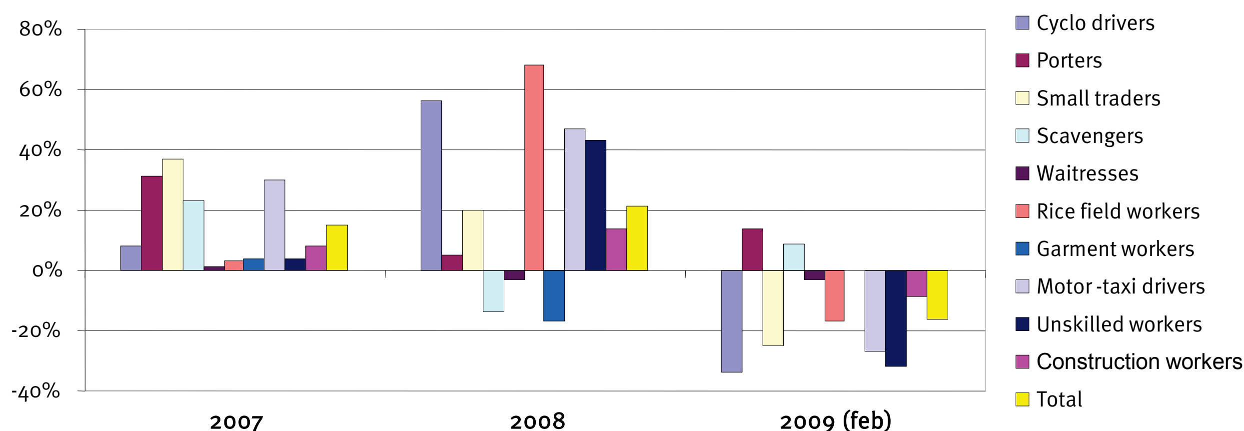
The price channel includes consumption and production prices and therefore inflation, especially food price inflation. Lower demand in global markets for commodities is pushing down prices, reducing the income of primary producers. In Cambodia for example, reduced demand for cassava resulted in a decline of gross margins for cassava by 166% – farmers are therefore making a negative loss of $180 per hectare. Some farmers have been forced to leave the crop on the farm as there are no buyers. Further, a number of farmers who took loans to grow or expand cassava production are likely to face a precarious financial situation.

The Cambodia report shows that observed changes at the sectoral level may not reflect the reality of workers within the sector. Take the case of Cambodia's rice sector, which has seen a rise in prices

5 It is possible to use the same framework as for poverty. The ILO has estimated employment elasticities with respect to growth and we have taken the average over 1991-2003: Nigeria, 1.11; Ghana, 0.77; Zambia, 0.20; Cambodia, 0.37; Benin, 0.87; Bangladesh, 0.31; Bolivia, 1.26; Uganda, 0.34; Kenya, 1.96; Indonesia, 0.24

compared with a year ago,[6] yet interviews with rice field workers in the sector indicated that the real earnings of rice field workers have decreased by approx 15% since 2008 (see Figure 13 below).

Figure 13: Real earnings of unskilled workers in Cambodia, 2007-Feb 2009 (% change) (n=480)



Source: CDRI Vulnerable Workers Survey, see http://www.cdri.org.kh/economic.htm.

Inflation was still evident in some countries. In Ghana, inflation increased from 10.7% in June 2007 to 17.5% in June 2008, and to 20.3% in February 2009. Similarly, inflation in Zambia doubled from 8.9% in December 2007 to 16.6% in December 2008, but this is not attributable to the financial crisis. Kenya saw inflation rise from 18.8% in January 2008 to 21.9% in January 2009, and most recently inflation was at 25.1% (February 2009). Additionally, the fall in world food prices is not necessarily being felt by poor consumers (Blas, 2009). Evidence in Bangladesh shows that, since November 2008, food price inflation (as measured by the commodity food price index) was higher than aggregate inflation (measured by the commodity price index), and that inflation in rural areas was higher than the average and than urban inflation. Therefore, the rural poor are experiencing the worst impacts of inflation.

8.4 Assets and access to goods and services

There is little evidence so far that the level of goods and services has declined. However, goods and services provided by governments, NGOs or the private sector might be declining, as these organisations are seeing declines in revenue. For example, in Uganda, inflows to NGOs declined by 5.3% between 2007 and 2008, with the decline more pronounced since October 2008.

Transmission channels can have differential effects over time and across sectors, income groups, gender and space. In terms of differential spatial impacts, Indonesia provides an example: an export-oriented sector that has already been hard hit is plantations, whose locations are concentrated in five provinces; North Sumatera (palm oil and rubber), Riau (palm oil), South Sumatera and Lampung (coffee, tea, cacao and other spices) and South Sulawesi (cacao). The gender implications in the Cambodia's garment industry are highlighted above.

6 Farm gate prices at the end of 2008 fell by 7% to 57%, except for rice, which continued to be 11% more expensive compared with a year ago (2007). Gross margins for wet season rice, however, went down by 10%, although prices were still higher than in late 2007.

9. Economic policy responses

Economic policy responses to address the fallout of the global financial crisis range from continuing business as usual to embarking on a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia) or implementing fiscal stimuli (e.g. Indonesia), but in others there has been a very small monetary policy step and not much else (e.g. Kenya).

Some countries have announced growth policies as a result of the crisis. In Cambodia, the government has announced a number of measures to reduce costs for garment exporters and increase competitiveness generally. The 2009 budget is expected to be expansionary, including investment in infrastructure, agriculture and social safety nets. The government is working with development partners in relation to the creation of social safety nets. This includes training programmes for laid-off garment workers.

Cambodia has unveiled plans for a stimulus package that involves augmented spending on infrastructure, agriculture and social programmes. However, many of the measures proposed in the 'fiscal stimulus' package already feature in the government's budget, so cannot be considered as additional or as a direct response to the crisis. The IMF proposed expanding the fiscal deficit to over 4.75% of GDP (from 2% in 2008) to fund critical investment and pro-poor services – the government has yet to respond.

Some countries have introduced a fiscal stimulus. In Indonesia, while priority is on maintaining financial market stability, given the reduced growth projections the government has approved a fiscal stimulus package of 2.6% GDP. There are concerns over whether the stimulus can be spent immediately. The government has launched 'labour-intensive infrastructure' projects. Measures have been introduced to reduce inflationary impacts on households; the 'rice for the poor' programme will continue in 2009.

The recently announced fiscal expansion initiative includes an additional Rp12 trillion ($960 million) for infrastructure projects, which will include Rp 5.57 trillion ($0.5 billion) for public works projects (7.5% of total fiscal stimulus allocation). Urban and peri-urban areas, where it is likely the most significant impact of the crisis will be felt, are less covered. Indonesia has a popular emergency cash payment system but this is due to close shortly, and its extension is not certain. The government could not have engaged in a fiscal stimulus if it followed the IMF prescriptions in the 1997 crisis.

But in most countries it is still business as usual. Benin put in place a set of policies to stimulate and increase the contribution of the agriculture sector to GDP and policies to increase fiscal revenues by widening the tax base. Bangladesh has not had any major announcements and the case study suggests a need for a fiscal stimulus to offset the potentially negative effects of stimuli in other countries. In Zambia, the government is continuing with 'business as usual': 'the government has not responded urgently and definitively to the economic crisis'. Policies in response to falling copper prices are concessions to the mining sector to reduce cost of production and increase profitability (although it should be noted that the contribution of mining taxes to the government has increased substantially over the years), including abolition of the windfall tax and increased investment incentives. Uganda has not made any significant move that could be interpreted as a response to the financial crisis. Kenya has not articulated a strong view on how to handle the crisis, although a taskforce has been set up to look into ways of cushioning Kenya's economy. The central bank recently lowered the cash ratio from 6% to 5% and the central bank rate from 9% to 8.25% in order to lower interest rates and enhance credit supply in the economy, although some observers contend that these actions are not enough to achieve these objectives. Besides actions by the central bank, the government has initiated a number of programmes, but these may not be directly linked to the crisis. In Bolivia, the 2009 budget

comprised an increase in public investment and a 12% increase in wages and salaries of public officials. The central bank has stressed that it will maintain a fixed exchange rate.

Of course, many countries have seen new policy announcements, but these may have been related not to the financial crisis but rather to issues such as high food prices. The government of Kenya initiated an employment generation programme in March 2009 to mitigate rampant unemployment in the country.

Table 14: Examples of policy responses

	Macroeconomic management	Long-term growth	Other examples
Bangladesh	Central bank reserves were safeguarded through withdrawal from risky investments and transfer to reliable central bank accounts, and private sector financial institutions advised to protect their respective deposits		
Bolivia	The 2009 national budget comprises a 20.6% increase in public investment and a 12% rise in public servants' wages and salaries		
Cambodia	Expansionary budget, but discussion over whether this had already been announced	Reducing costs of garments, increasing competitiveness, investment in infrastructure, agriculture and social safety nets	Increase social protection
Ghana			Several programmes in relation to the food and fuel crises
Indonesia	Fiscal stimulus package of 2.6% GDP; maintaining financial market stability by increasing liquidity	Improving competitiveness; launched 'labour-intensive infrastructure' projects	Temporary increase in tariffs on some import competing products
Kenya	Central bank recently lowered the cash ratio from 6-5% and the central bank rate from 9-8.25% in order to lower interest rates and enhance credit supply in the economy		Other programmes not related to the financial crisis, such as employment generation programmes
Uganda	After an increase in interest rates to address inflation, it has recently been lowered	Strengthening regional trade through infrastructure development, especially for those routes with higher potential; support to the agriculture sector	
Nigeria	Reduction in the monetary policy rate (MPR) from 10.25-9.75%; reduction in cash reserve requirement; cutting liquidity ratio		

10. Effects on the government balance

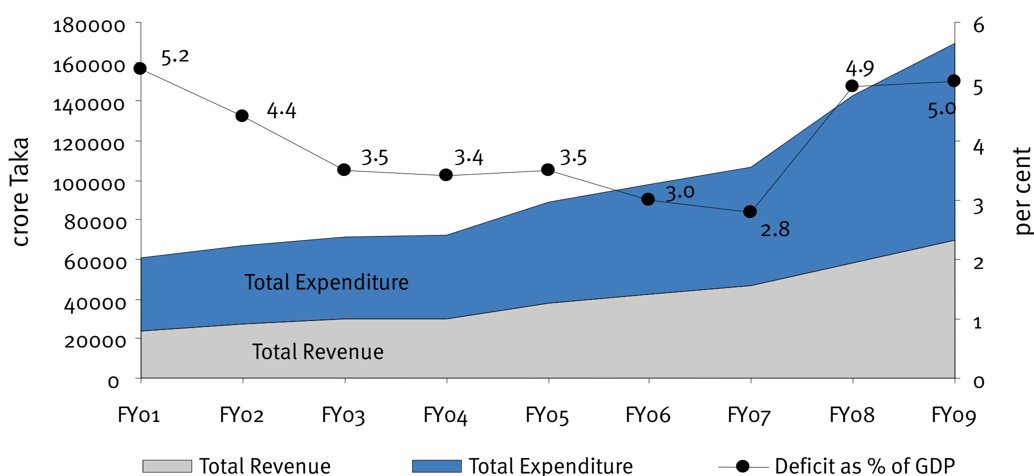
The global financial crisis will affect government spending and revenues. It is likely to put pressure on government spending to address social protection and restore growth (although fertiliser and other imports will have become cheaper) but dampen government revenue because:

- Corporate taxes decline with lower private economic activity;
- Royalties and mining taxes decline as commodity exports in volumes and values decline;
- Import taxes decline because import values decline with lower commodity prices; lower import volumes because of lower total final expenditure;
- Capital income is lower;
- Grants (e.g. aid) are lower.

It is therefore likely that the government balance will deteriorate. Using quarterly data, tax revenues in Uganda decreased over in 2009 Q3 over the same period a year before. This owed especially to lower domestic taxes, as value-added tax was lower because of lower domestic consumption. On the other hand, monthly tax revenues show a volatile pattern.

Bangladesh recorded savings on budgetary allocation for fuel subsidy, but monthly data show that collection of import duty experienced a sharp fall in recent months, with only marginal improvement in January 2009. Import duty and other related duties together constitute around 42% of total revenue collection in Bangladesh. Thus, it is likely that revenue collection in FY2008/09 will fall short of the target by a significant margin.

Figure 14: Budget deficit in Bangladesh, FY2001/02-FY2009/10 (crore taka, %)



Source: Ministry of Finance (Bangladesh).

Net budgetary gains (e.g. lower fertiliser expenditure owing to lower import prices) could create some fiscal space that would allow the government to go for higher expenditure without overshooting the projected deficit of 5.0% of GDP.

The global crisis has come at a time when Zambia appeared poised to collect significant tax from the mining sector for the first time. Having never exceeded 10% of total tax revenue or 1.4% of GDP in 30 years, the IMF was projecting mining tax of 4.6% of GDP in 2009. This has now been cut to 0.5% of GDP.

The loss of potential revenue from the mines as a result of the crisis reduces the government's fiscal space to finance social sector expenditure programmes such as education, health and infrastructure for poverty reduction.

Reduced revenue and expanding debt (owing to currency depreciation) increase pressure on government budgets[7] and squeeze these social services. Kenya has seen a reduction in core poverty programme funding from an approved Ksh 78 billion in 2007/08 to Ksh 62.9 billion in 2008/09. The proportion of Zambia's marginal social protection budget allocated to non-pension activities has shrunk from 24.5% in 2008 to 19.2% in 2009.

The federal government in Nigeria intends to reduce public expenditure on the social services sector significantly, with the 2009 budget proposal indicating a 16% cut in education allocations and 29% in health.

In Bolivia, the price of hydrocarbons has been behind much of government revenues, so a decline in these prices will lead to lower budgets. Figure 15 shows the gap between export revenues in constant (2004) prices and current prices. Figure 16 shows actual government balance in blue and predicted government balance, had prices remained at 2004 levels, in red.

Figure 15: Bolivian exports, 2000-2008 (current and constant US$)

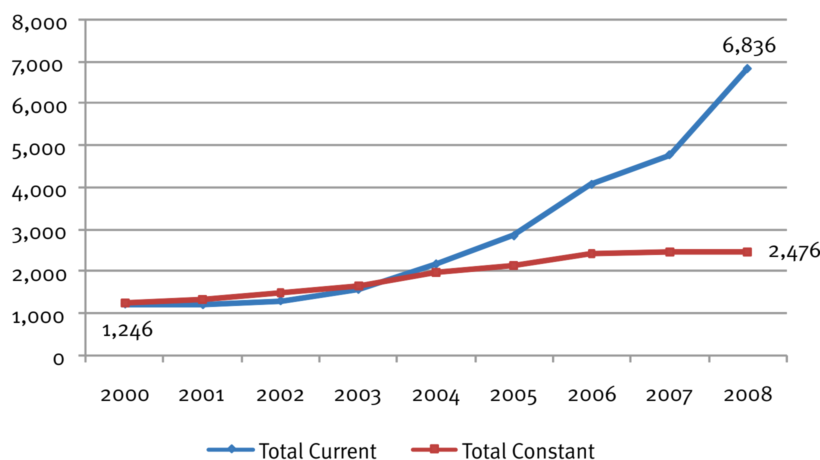
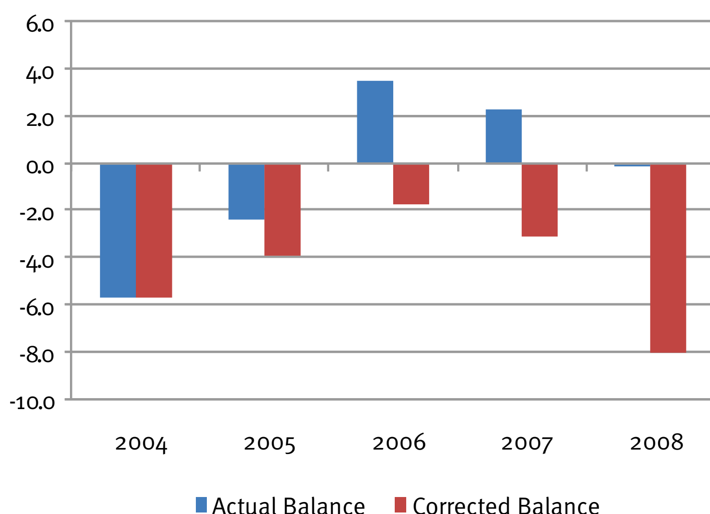


Figure 16: Bolivian government balance, 2004-2008 (% of GDP)



Source (Figures 15 and 16): Bolivia case study.

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7 In Nigeria, for example, the oil sector provides 85% of government revenue – falling oil prices will have an important impact on resources available to cope with the implications of the financial crisis.

11. Social protection provision

The case studies also examined government responses to the crisis in terms of social protection provision for the poor. This included both social protection budgetary allocations and allocations to the social sector more generally (health and education).

There is a wide range of social protection responses, ranging from countries that were struggling to meet existing social protection commitments (such as Kenya and Uganda); to those that were attempting to extend coverage significantly in response to the crisis (Bangladesh and Ghana), even at the cost of a widening fiscal deficit (Cambodia); to those for which the priority policy response was addressing growth issues and investing in a fiscal stimulus package, or attempting to reduce social sector expenditure in order to promote macroeconomic sustainability in the context of a widening deficit rather than focusing on the extension of social protection provision (Indonesia and Nigeria respectively).

11.1 Social protection provision

Across the case study countries, social protection provision is piecemeal and fragmented, with low levels of coverage. However, during the past five years, national social protection strategies have been adopted in most of the case study countries, with the objective of coordinating and extending social protection provision. The extent to which these plans have been adapted in response to the changing needs resulting from the crisis varies significantly. Some countries are struggling to protect funding for existing commitments in the context of severely constrained government budgets, whereas others are attempting to extend coverage. Cambodia has already initiated new programmes, and Ghana is attempting to expand its existing programme in order to mitigate the effects of the crisis, both with the support of emergency World Bank funding, although the institutional and fiscal sustainability of these expansionary initiatives is subject to question. Other national social protection programmes are still under development but with little prospect of being realised on a significant scale in the short term, given the reduction in funding available (Kenya).

Social protection provision has low coverage in all the case study countries, tending to be inequitably distributed, assisting only a small percentage of the poor and offering disproportionate support to those in formal employment, particularly government employees. Evidence of significant increases in coverage (in terms of percentage of the poor covered) in response to the crisis is scarce, with only Cambodia and Bangladesh reporting significant programme expansion during 2008 and 2009, although in the case of Bangladesh this expansion was planned largely prior to the onset of the financial crisis. Elsewhere, social protection provision has either remained largely unchanged from what it was prior to the crisis, or the increases in coverage have been marginal. In part, this is likely to owe to the fact that large-scale impoverishment arising from the crisis is not yet politically visible in many of the countries, as a result of delays in the transmission of the crisis and limited second-round effects to date. Also, some countries, such as Indonesia, have chosen to prioritise expenditure on economic stimulus activity rather than social protection, maintaining a level of social protection investment based largely on programming levels planned in 2006.

While the crisis has not yet resulted in major social protection policy revisions, or a large-scale expansion of social protection provision in most countries, a number of pre-existing programmes have been extended and new programmes introduced, albeit on a modest scale. The major types of interventions selected to date are food subsidies and rationing (Indonesia and Bangladesh), food distributions for vulnerable groups and school feeding programmes (Cambodia, Indonesia, Bangladesh, Ghana, Kenya and Nigeria), in-kind transfers offering fertiliser (Kenya), cash transfers (Ghana), education scholarships and subsidies (Cambodia and Ghana) and public works programmes (Cambodia, Indonesia, Bangladesh).

11.2 Resource availability

The financial effects of the crisis were not fully recognised in many 2008/09 budgets, which underestimated the likely impact of the crisis on revenue. Budgets of most case studies were based on more positive growth scenarios than those currently forecast by the IMF, with 2008/09 budgets only having in most cases modest reductions in the real value of social protection allocations. The medium-term effects on social protection allocations are more likely to be significant in 2009/10 budgets, limiting planned social protection and social sector activity. In this context, the potential for extending social protection provision to those affected by the crisis but who are not targeted in existing strategies is likely to be highly compromised by lack of resources. Even the planned extension of existing social protection programmes may be compromised owing to the tension between the increased state expenditure implied by expanding social protection provision, and the simultaneous objective maintained by many of the case study governments of reducing the deficit in the context of falling state revenues, as in the case of Ghana. In Nigeria, the fall in the value of its main export commodity has resulted in the federal 2009 budget indicting a 16% cut in education allocations and 29% in health.

11.3 The role of the donor community

The case studies did not indicate that any reduction in donor funding allocations or forward commitments to social protection programming had yet taken place. However, in several countries, including Kenya, which issued an emergency appeal to the donor community in 2008, a growing dependence on donor funding was highlighted in the wake of the crisis. Governments said that they require increased levels of aid for the social sectors if they are to meet their existing commitments to health and education and continue with the planned rollout of social protection initiatives, as a result of falling contributions to these programmes by the state. Emergency funding interventions by the World Bank and ADB have enabled a one-off extension of crisis response programming in countries such as Ghana and Cambodia, with significantly higher levels of coverage.

11.4 Policy priorities

The extent to which social policy in general, and social protection in particular, is protected in the context of falling state revenues is informed in part by policy priorities, as well as perceived need. In Kenya, for example, the exigencies of addressing the internally displaced person situation resulting from the civil unrest in 2008 and the national food crisis are perceived as policy priorities, resulting in the diversion of 15% of the total government budget to replenish food stocks and alleviate the food crisis. Resources have been reallocated from many sectors to fund these unforeseen costs, including education provision and other planned social sector expenditure. Elsewhere, where components of social sector expenditure are funded from conditional debt relief funds, these allocations are ring-fenced and enjoy a measure of protection, even when other components of social sector expenditure are being cut (as in the case of resources allocated to universal primary education in Nigeria and Uganda). In Zambia, public sector pensions consistently account for over 75% of government social protection expenditure, and allocations to this sector have been protected while contributions to social protection have decreased, indicating that protecting state sector pensions is a policy priority over social protection initiatives.

Elsewhere, stimulus packages and growth-oriented initiatives are prioritised, rather than investment in direct poverty relief (as in Indonesia). Social protection concerns are addressed indirectly through the anticipated employment creation effects of increased infrastructure investment and labour market initiatives to stimulate formal and informal sector employment.

11.5 Conclusions

There is limited evidence of significant increases in social protection provisioning in the case study countries. The programme developments that have taken place in response to the crisis are primarily, though not exclusively, marginal increases to already limited programmes. Countries are struggling to maintain existing social protection commitments. The rollout of strategies developed prior to the crisis is in jeopardy owing to the fiscal contraction engendered by the crisis. Prospects for extending coverage significantly on the basis of domestic resources are poor. Only a large-scale increase in levels of donor funding would enable prior poverty and the impoverishment resulting from the crisis to be addressed to any significant degree through social protection.

The limited policy response to the crisis, which is particularly apparent in the sub-Saharan African case studies, is the result of a combination of limited resource availability and a lack of prioritisation of social protection expenditure in the context of a constrained fiscal position. It is likely that this owes in part to the fact that the first- and second-round poverty effects of the crisis are not yet fully realised in many of the case study countries and, as such, have only limited political traction.

11.6 Factors determining social protection response

The key factors determining the nature of the social protection response to the crisis may be identified as: i) the extent to which actual and anticipated state revenue contraction has constrained budgets; ii) whether governments are willing to tolerate an increasing deficit in order to support social protection provision; iii) whether they are able to access alternative sources of income to address the fiscal deficit; iv) the relative priority given to social protection and social sector programming; and v) the extent to which increased impoverishment arising from the crisis has been recognised and identified as a priority concern.

Table 15: Summary of country responses

Bangladesh	Combination of the introduction of new programmes and the expansion of existing programmes on a significant level from 2008 onwards, with the 2008 budget seeing an increased share of expenditure allocated to social protection, from 3.5-6.8% of total government expenditure. New measures include: • The introduction of 100 Days Employment Guarantee Programme, intended to reach 7 million households in the first year • The Vulnerable Group Feeding programme, extended by 25% to reach 7.15 million households with a ration increased from 10kg to 15kg • Further measures are anticipated, as the new government elected in January 2009 has a pro-poor agenda and has announced it will raise allowances and numbers of beneficiaries in the 2009/10 budget.
Cambodia	Existing social protection interventions are very limited and coverage is patchy in terms of geography and who receives help. The World Bank is helping the government map existing components, identify gaps and budgetary requirements and come up with a plan to take the process forward. The global economic crisis is leading donors and the government to pay more attention to social safety nets, which have been limited historically, and the situation may be characterised as one of expanding coverage from a very limited base, but heavily dependent on donor funding. The World Bank has committed $10m in emergency budget support to the government, earmarked for social protection activities.
Ghana	The National Social Protection Strategy (NSPS) designed in 2007 is currently before the Cabinet for recommendation to Parliament. Pending approval of the strategy, key components of the programme have been initiated, including the Livelihood Empowerment Against Poverty (LEAP) programme, which was launched in March 2008 and reached 8000 households with social grants by the end of 2008. Efforts have been made to extend social protection provision in the context of the crisis; during the food crisis, LEAP was used as an emergency programme with an additional $20 million from the World Bank funding an extension of coverage to an additional 15,000. The government has made a commitment in the 2009 budget to increase social protection expenditures by increasing the capitation grant; extending participation in the National Health Insurance Scheme (NHIS); and continuing the school feeding programme, as well as extending LEAP.
Indonesia	Enjoys well-established social protection schemes with wide coverage which are well functioning in rural areas. Significant expansion in social protection expenditure or programming have not been reported since the initiation of the crisis, although the 2009 budget indicates a total 30% increase in the budget for 'Social Protection and Direct Intervention Programmes' over 2008, allocated primarily to extending free health care and community development programmes, and an increase by 25% in the allocation to the subsidised rice programme for the poor, although this was to fund an increased ration size rather than an expansion of coverage.
Kenya	Kenya was hard hit by multiple crises during 2008 which resulted in significant unbudgeted expenditure on food imports and fertiliser subsidies in response to severe food shortages and resettlements. Financing of the food deficit and provision of food to vulnerable populations has been prioritized over other planned social sector expenditure. 15% of the budget (KSh 37 billion or $450 million) has been diverted from programmes to fund imports to alleviate food shortage and replenish stocks; Ksh 10 billion ($120 million) allocated to education has been reallocated to fund food imports; expenditure on non-priority employment and development projects is suspended.
Nigeria	The federal government has created a Presidential Steering Committee to develop a strategic response to the impact of the crisis to address both macroeconomic and social protection responses to the crisis. This is yet to present its findings. In the meantime, the federal government intends to reduce public expenditure on the social services sector significantly, with the 2009 budget proposal indicating a 16% cut in education allocations and 29% in health.
Zambia.	Zambia developed its Social Protection strategy in 2005, and a range of schemes are currently being implemented. However, coverage remains extremely limited owing to lack of resources, and there are problems of poor targeting and low benefits. The government was considering to scale up the Social Cash Transfer Scheme as its major social protection strategy. However, the government is planning to reduce allocations to social protection in 2009 as a result of the crisis.

12. Institutional context for policymaking

Several countries have responded by setting up new crisis taskforces or building on existing institutions. It is too soon to judge the effectiveness of the institutional setup behind the policies describe above, but it is likely that a more institutionalised response is also more effective.

The government in Bangladesh has set up two taskforces made of government officials, and announced recently a National Taskforce comprising 27 members, with the Finance Minister as convenor. Cambodia already had a set of taskforces, public–private working groups and an economic government think tank which, together with the severe context, may have helped obtain a rapid response. In response to worsening conditions in the global economy, the government of Indonesia has taken both reactive and proactive measures. The government and the central bank have made joint efforts to maintain financial market stability and to provide fiscal stimulus in order to keep domestic demand growth at its usual annual rate.

A taskforce has been set up to look into ways of cushioning Kenya's economy from the adverse effects of the crisis, comprised of officials of the Ministry of Finance and Planning as well as the central bank. So far, it seems 'business as usual', although the most recent information suggests a government response is forthcoming. Policies in Zambia, especially in mining, are conducted in a context of mistrust between public and private sectors. The turmoil early in 2008 that ensued from the unilateral and abrupt changes to the mining fiscal and regulatory regime, and the layoffs resulting from the impact of the global financial crisis, have further worsened the distrust. Yet, appropriate and effective policies for such a strategic sector need trust and information. Nigeria inaugurated a Presidential Steering Committee on the Global Economic Crisis in January 2009. A Presidential Advisory Team on capital markets was set up to consider measures to reverse the declining fortunes of the Nigerian capital market. However, until recently, the official response has been slow and the adopted stand one of indifference. There appeared to be no taskforce in Uganda, which could lead to ineffective and less well coordinated responses: some government officials suggested that 'now is the time for government to be more inward looking than before – relying on the external sector is not prudent'.

13. Conclusions

This synthesis paper covers 10 country case studies that have examined the main transmission belts (trade, private capital flows, remittances, aid) through which the crisis affects developing countries. It has also examined the growth and development effects and the policy responses so far. While it is still too early to assess the full effects, we find that different countries are affected differently.

Transmission belts

While the same transmission belts (trade, private finance, aid, remittances) affect country case studies differently, it is now clear that all countries are experiencing the effects.

- *Private financial flows* have been affected, but there is a need for disaggregation. Portfolio investment flows experienced a dramatic drop in 2008 in most countries, shifting sometimes to large net outflows and a significant drop in equity markets in 2008 and into 2009. There is evidence of increased tightening credit conditions for bank lending in Cambodia, Ghana and Zambia. Foreign Direct Investment has been affected less, but the impact varies across countries, got worse during the year, and shows a marked worsening compared to record increased to countries in Africa in 2007 and 2008.
- The value of *trade* is declining. For example, Indonesian exports of electronic products (which account for 15% of total exports) experienced a fall of 25% (in value terms) comparing January 2009 with January 2008. The value of garment export in Cambodia has already dropped from a monthly average of $250 million in 2008 to $100 million in January 2009. Prices of most commodities such as copper and oil declined dramatically, affecting countries such as Nigeria, Zambia and Bolivia, but cocoa and gold prices did not decline which is good for countries such as Ghana. Imports bills for fertilizer and oil have declined taking some pressure off the current account in oil importing countries.
- Remittances are down in nearly all case study countries. For example, in Kenya remittances have declined by 27% y-on-y in Jan 2009 after a volatile 2008. In Bangladesh emigration is down by 38.8% (Feb 2009 over Feb 2008) jeopardising future remittances.
- So far there is little to no evidence of an aid pull out. However, there has been a decline in aid to Uganda in 2008, although it might be too early to attribute this fully to the crisis.

Effects on economic growth

The actual effects on growth so far and expected effects vary across countries:

- A general growth slowdown throughout 2008 is visible for countries with quarterly statistics. There is a general consensus among the country case studies that 2009 will see worse effects. This is consistent with IMF forecasts that several countries will see declining GDP per capita in 2010.
- Growth forecasts have been revised in all countries. Reduced growth prospects are noticeable especially when comparing to excellent growth records for developing countries in the years leading up to 2007 and to some extent 2008. For example, Cambodian growth is set to decline from more than 10% in 2007 to close to zero in 2009. Kenyan growth may only reach 3-4% in 2009, down from 7% in 2007, and after a sluggish 2008 due to political turmoil. Some other countries such as Zambia have seen growth prospects alter less despite effects on the mining industry.
- Growth in countries is affected differently because of sector composition: tourism in Kenya and Cambodia; manufacturing in Asian countries; and commodities in Bolivia and Zambia.
- Manufacturing has been hit hard, especially in Asia countries that specialise in exports such as garments (Cambodia) and electronics (Indonesia).
- Countries whose growth has been dependent on export sectors have suffered more. For example, Cambodia has suffered greatly but, although Indonesia's manufacturing exports and

sector were affected, overall consumption and services have been important in driving recent growth there.

Effects on employment

There are already some significant employment effects:

- A recorded 15,000 construction workers in Cambodia were laid off in mid-2008. This has led to some de-urbanisation. The garment industry has been hardest hit, with approximately 51,000 people laid off (many of these women) in the six months between September 2008 and March 2009.
- FDI-generated employment in Ghana dropped from 15,526 in the fourth quarter of 2007 to 10,022 in 2008 (Q4).
- In Indonesia, by February 2009, 37,905 workers had been laid off as a result of the current crisis.
- In Kenya, the labour-intensive horticultural industry, which employs an estimated 3 million people, had to cut around 1200 jobs this year and suffered a 35% drop in exports of flowers.
- In Zambia, 8,100 workers in the mining sector lost their jobs in 2008.
- A simulation exercise in Bolivia predicts rising unemployment as a result of lower remittances (3.0%) and mining exports (1.6%).
- Following the International Labour Organization (ILO) methodology (2002), incremental job opportunities in Bangladesh may be squeezed by 500,000 compared with the expected level, if GDP growth slows down to the World Bank's projected level of 4.8%.
- The ILO has estimated employment elasticities with respect to growth and the average over 1991-2003 is: Nigeria, 1.11; Ghana, 0.77; Zambia, 0.20; Cambodia, 0.37; Benin, 0.87; Bangladesh, 0.31; Bolivia, 1.26; Uganda, 0.34; Kenya, 1.96; Indonesia, 0.24.

Effects on poverty

There are likely to be significant implications for poverty. Simple back of the envelope calculations using changes in growth forecasts and previously estimated poverty elasticities with respect to growth (or mentioned in the country reports) would suggest that the household poverty count might increase this year by 300,000 in Bangladesh, 110,000 in Cambodia, 233,000 in Uganda, 230,000 in Ghana and 650,000 in Indonesia compared to what it otherwise would have been.

Economic policy responses

Economic policy responses to address the fallout of the global financial crisis range from continuing business as usual to embarking on a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia) or implementing fiscal stimuli (e.g. Indonesia), but in others there has been a very small monetary policy step and not much else (e.g. Kenya). The government balance is affected, but varies across countries from lower tax receipts in Uganda, to lower government fuel import bills in Bangladesh and the evaporation of anticipated substantial increases in tax receipts from Zambian mining.The research has found that some countries (e.g. Kenya, Ghana, Bangladesh, Nigeria) have established a crisis task force which may help them to respond to the crisis.

Social protection provision responses

There is a wide range of social protection responses, ranging from countries that were struggling to meet existing social protection commitments (such as Kenya and Uganda); to those that were attempting to extend coverage significantly in response to the crisis (Bangladesh and Ghana), even at the cost of a widening fiscal deficit (Cambodia); to those for which the priority policy response was addressing growth issues and investing in a fiscal stimulus package, or attempting to reduce social sector expenditure in order to promote macroeconomic sustainability in the context of a widening

deficit rather than focusing on the extension of social protection provision (Indonesia and Nigeria respectively).

Conclusion

This is the beginning of the monitoring work and it will be important to continue the monitoring of the effects of the global financial crisis on developing countries and to understand developing country policy responses in the next phase.

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The 10 Global Financial Crisis country reports are available on ODI's website:
http://www.odi.org.uk/projects/details.asp?id=1041&title=global-financial-crisis-developing-countries.