Poverty and Economic Policy
Research Network

# GLOBAL FINANCIAL CRISIS AND POVERTY IN THE SOUTH

*The PEP Network provides a local perspective on the impacts of the 2008-2010 global financial crisis on poverty in developing countries -* By John Cockburn and Marjorie Alain

At the onset of the global financial crisis, there was considerable debate as to the eventual repercussions it might have in developing countries, i.e. whether and how it would impact national economies and worsen deprivation among the most vulnerable. Strong voices emerged to suggest that weak integration into the global economy, particularly in the case of Africa, would protect these countries from the worst effects of the crisis. Yet, as the crisis evolved, falling world export demand, foreign direct investment, remittances and, more recently, aid flows inexorably drew these countries into the global slump. Furthermore, weak fiscal situations and lack of access to a severely constrained global credit market denied these countries the most important tools – stimulus spending – that developed countries used to weather the storm.

In 2009, an international network of developing country researchers, supported by the IDRC since 2002, the **Poverty and Economic Policy (PEP) Research Network**, mobilized several of its members in Asia, Africa and Latin America to monitor, analyze and forecast the impacts of the crisis in terms of socioeconomic well-being in their respective countries. Indeed, over ten years of existence, the PEP Network has trained and mentored hundreds of local researchers in nearly 50 developing countries. Small teams of these now well-trained analysts were selected to take part in this project in over 20 countries. The initiative received support from the IDRC and other institutions such as AusAID, CIDA, IFPRI and UNICEF.

The research initiative is broken down into three components, or groups of studies, each providing a different analytical perspective on the issue, for more comprehensive results.

- **Providing a community-level perspective**
  A first group of studies – still in process – are catalyzing PEP Community-Based Monitoring Systems (CBMS) program to measure and monitor the poverty impacts of the crisis directly at the local level in seven different countries (Indonesia, Kenya, Lao PDR, Nigeria, Philippines, Tanzania and Zambia). In each country, several communities serve as observatories, or sentinel sites, where data is collected on the multiple dimensions of poverty through CBMS's household-level censuses.

- **Impacts of the crisis on children**
  A second group of now completed studies, supported by UNICEF, was concerned with the possible harmful impacts of the crisis on children in West and Central Africa. Burkina Faso, Cameroon and Ghana were selected to reflect the diversity of countries in the region. Local researchers worked with PEP resource persons to develop and apply combined macro modeling and microsimulation techniques to link the effects of the crisis on national economies to multiple aspects of child welfare: schooling, child labor, hunger and health. The researchers also explored the likely impacts of various possible policy responses to protect children and to avoid long-term consequences for their physical and mental development.

- **Anticipating national-level impacts and appropriate policy responses**
  The third group of studies – nearing completion – encompasses nine countries in Asia (Bangladesh, Pakistan and the Philippines), Africa (Senegal, South Africa) and Latin America (Bolivia, Colombia, Ecuador and Uruguay). The same modeling and simulation techniques (as referred to above) are being used by local research teams to forecast the general economic and poverty impacts of the crisis and those of different policy responses through each country's specific transmission channels.

## Findings to date

If some general conclusions can be drawn concerning global and regional trends – especially through the general drop in world demand, export volumes and prices – results yielded by the different PEP research teams to date illustrate the highly contextualized, country-specific, impacts of the crisis.

**1) From the community-level censuses**

From data collected so far through the PEP Community-Based Monitoring Systems, i.e. at the household- and community-level, it seems that although domestic economies were not affected to the degree that was initially anticipated – due to their relatively weak integration into the global financial sector – households are still impacted through various transmission channels. For example, as the crisis affected different economic sectors to varying degrees, workers in export-oriented manufacturing sectors often report having been displaced or experiencing reductions in wages or working hours. Other households have been impacted through the remittance transmission channel, as overseas workers – often in developed countries – had to cope with retrenchment or reduced pay.

The seven PEP research teams using CBMS also report on the different mechanisms that households have been resorting to in order to cope with these new constraints. Results to date show that poor households often tend to change their food consumption pattern, withdraw their children from school, and change their health-seeking behaviour. Obviously, such coping strategies may be damaging and counterproductive in the medium- and long-run.

If some governments have implemented programs that could potentially mitigate the impact of the crisis, CBMS results confirm that exclusions and leakages may impair these programs' overall efficiency to protect the most vulnerable groups of population.

Although the impacts of the crisis' aftermaths on household well-being and coping mechanisms are still being monitoring by each of the seven country research teams, some of them have already published preliminary reports on their findings to date. See, for example, this first policy brief published by the Philippines' CBMS research team:

The Impact of the Global Financial and Economic Crisis on Poverty in the Philippines, by Celia Reyes, Allelie Sobrevinas and Jeremy de Jesus. (PDF - 89,59KB)

**2) From crisis and policy responses simulations**

For the 13 other projects, which all combine macro modeling and micro-simulation techniques to simulate the impacts of the crisis and possible policy responses, country results also vary substantially. If the channels of impact seem to be relatively similar in all case studies – essentially the reduction in export volumes and prices, foreign aid and remittances – national economies are affected to varying degrees. Initial levels of economic performance, fiscal balance and/or integration into the global economy are obviously crucial, not only for the impacts on the country's economic well-being, but also for the government's capacity to implement policies to counter the impacts of the crisis.

In a country like Bolivia, for example, external revenues had significantly increased prior to the crisis, due to an important export commodity price boom, leading to the first recorded fiscal surpluses in the country's history (from 2006 to 2009). So far, with the exception of the drop in the world mining export prices, it seems that the crisis had relatively mild effects on the Bolivian economy.

Other countries are not so lucky; in South Africa for example, where export volume have fallen by 19.5% (excluding gold), gross domestic product, investment and the government deficit all deteriorated and the forecasts are less optimistic than for Bolivia. Given the fall in production for most sectors, followed by a drop in investments, the impact on socioeconomic well-being in South Africa is forecasted to be much greater at the household level. Where economies are hit hard or unable to react, long-term poverty impacts at the household level ensue, especially through employment. In all studies, PEP research teams have prepared specific recommendations on the best policy options that governments should apply to sensibly reduce these effects on households and protect the most vulnerable.

Several projects are still awaiting publication of their final conclusions in the form of working papers and/or policy briefs, after and from which PEP will draw regional assessments and outlook reports. For the moment, individual country results can be consulted in reports found through the links available on the following page of the PEP website, where future publications will also be made available:

http://www.pep-net.org/programs/mpia/special-initiatives/special-initiative-crisis/

In the case of the UNICEF-commissioned study on the more specific impacts of the crisis on **children in West and Central Africa**, results from all three country research projects (Burkina Faso, Cameroon and Ghana) have been published and processed for regional analysis. The following report is a policy brief that summarizes the outcomes of this regional assessment:

Global Economic Crisis and Children: Effects and Policy Options in West and Central Africa, by Ismaël Fofana, John Cockburn and Luca Tiberti

It is found that in the absence of a strong policy response, in these three countries alone, slightly less than a million children will be drawn into poverty and suffer from hunger in 2011 as a result of the crisis. Policy simulations provide compelling evidence that a targeted cash transfer to poor children would be, by far, the most effective response in terms of policy interventions to counter the deterioration. Such a program, financed by foreign aid worth less than 1% of domestic GDP, would fully offset the negative effects of the crisis on child poverty and nearly completely offset the impacts on child hunger, school attendance and child labor.

Detailed results from each of the individual country projects, either in the form of working papers or policy briefs, can be found via this link:

http://www.pep-net.org/programs/mpia/special-initiatives/special-initiative-children/