The Global Financial Crisis and Developing Countries[1]

Preliminary Synthesis of Ten Draft Country Reports

April 2009

[1] This project is funded by the UK Department of International Development and the Dutch Ministry of Foreign Affairs. Any views expressed are the responsibility of the authors and not of DFID or ODI. Contact: Dirk Willem te Velde (dw.tevelde@odi.org.uk). This synthesis is based on the initial results from ten country case studies..

Abstract:

The Overseas Development Institute is coordinating a 10 country study examining the effects of the global financial crisis and discussing policy implications. Conducted by 40 developed and developing country researchers, this research is already leading to important insights. While our previous research has indicated the main transmission belts (trade, private capital flows, remittances, aid), the research finds that different countries are being affected differently.

Emerging issues include:

- 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. FDI has been affected less, but varies across countries.
- Export values are 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. Garment export values in the beginning of this year have already dropped alarmingly from a monthly average of $250 million in 2008 to $100 million in January 2009.
- In Kenya remittances down by 27% in Jan 2009 / Jan 2008 (having been volatile in 2008)
- There have been aid declines in 2008 in Uganda.
- In Bangladesh emigration is down by 38.8% (Feb 2009/Feb2008).
- There are significant growth revisions in all countries. For example, Cambodian growth is set to decline from more than 10% in 2007 to close to zero in 2009.
- There are significant job losses. Cambodia has already lost 51,000 garments jobs lost in recent months. Also 15,000 of the jobs were lost in construction.
- Zambia lost 8,100 (25%) of the 30,000 mining jobs lost in 2008.

Economic policy responses to address the fall out of the global financial crisis vary widely. Policy responses range from continuing business as usual to using a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia), or even implementing a fiscal stimulus (Indonesia), yet in others there has only been a very small monetary policy step and not much else (e.g. Kenya or Uganda). 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.

There is also a wide range of social policy responses within the case study countries. These range from significant reductions in social sector allocations overall (Nigeria and Zambia) to countries where, with donor support, social protection provision is being extended rapidly from a low base, in response to the crisis (Cambodia), to others where a well developed system is being expanded to respond to increased need (Indonesia). The key factors determining the scale of the social protection response to the crisis may be identified as the extent of revenue contraction, the ability of the government to access resources to finance the fiscal deficit, and the pre-existence of a social protection system.

This is the beginning of our 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.

Foreword

The UK Department for International Development and the Dutch Ministry of Foreign Affairs supported a team of 8 ODI researchers and 30 research collaborators in ten countries (in Asia: Indonesia, Cambodia and Bangladesh; 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 each country, and synthesis reviews. 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. This paper is an initial draft synthesis of the 10 country case studies based on the draft papers. It will be followed by more in depth syntheses and final reports to be released in April/May 2009.

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1 Introduction

The global financial crisis started in developed countries, but the global recession which has followed is having a wide-spread impact on developing countries. By the end of this year, developing countries are expected to lose incomes worth at least US $750 billion. In sub-Saharan Africa, the figure is over US $50bn. The consequences are likely to be rising unemployment, poverty and hunger: an extra 50 million people trapped in absolute poverty, with the number expected to rise to 90 million[2]; and the total number suffering from hunger already up by 75 million to rise to nearly a billion people, rising for the first time in nearly two decades[3].

The Overseas Development Institute (ODI) coordinates a large study examining the effects of the global financial crisis in 10 developing countries. This study links developing country research institutes, think tanks and donor agencies, with funding from the UK Department for International Development (DFID) and the Dutch Ministry of Foreign Affairs. The research is ongoing in Asia (Indonesia, Cambodia and Bangladesh), in South America (Bolivia) and in Africa (Benin, Ghana, Kenya, Nigeria, Uganda and Zambia). The following reflects the views of the authors and contributors alone, on the basis of provisional reports.

The main research questions for the country case studies include:

- What are the elements of the **shock at the national level** (via private capital flows, trade, aid and remittances)?
- What are the possible **effects on growth, investment, poverty and inequality and debt** (distinguish between actual and likely effects)?
- What are the **possible policy implications** (distinguish between actual, possible and optimal policy responses)?

The structure of this report is as follows. Section 2 provides background to the country case studies. Section 3 describes the methodology used in the country case studies. Section 4 discusses the provisional findings of the draft report on the shock at national level, section 5 on the effects on growth and development, and section 6 on policy implications. Section 7 concludes.

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[2] Address by Douglas Alexander, Secretary of State DFID, Chatham House, London 2009: http://www.dfid.gov.uk/news/files/speeches/sos-wb-speech.asp

[3] Address by Jacques Diouf, Director-General of the Food and Agriculture Organization, Madrid 2009: http://www.ransa2009.org/docs/docs/speech_DG_FAO_ransa2009.doc.pdf

2 Background to the country case studies

2.1 Global studies

The global financial crisis started in developed countries, but the global recession which has followed is having a wide-spread impact on developing countries. Global studies paint a bleak picture.

Global studies paint a bleak picture:

- ODI estimates that developing countries could lose at least $750 billion by end of 2009. In sub-Saharan Africa, the figure is over $50 billion.
- The volume of world exports would be down by 6% in 2009, according to Zoellick, or 9% according to WTO. The OECD forecasts a drop in world trade volumes of 13.2%
- Net private capital flows are expected to decline by 82% in the period 2007-2009, says the Institute for International Finance.
- The United Nations Conference on Trade and Development (UNCTAD) suggests that FDI will decline by 10% this year.
- Remittances are expected to fall at least 5% in 2009, according to Zoellick.
- Aid flows increased to around $120 billion in 2008, but they fall short of commitments, and exchange rate effects and cuts already announced alone are likely to put pressure on aid budgets in dollar terms.
- The World Bank suggests that 84 out of 109 developing countries surveyed face a financing gap of $270-$700 billion depending on the severity of the crisis and the strength and timing of the policy responses.
- The International Monetary Fund (IMF) provides current baseline projections for 2009 which suggest an aggregate additional financing need for low income countries of about $25 billion. However much larger financing needs, up to $140 billion, would result if various downside risks were to materialise.
- The consequence of these forecasts is likely to be rising unemployment, poverty and hunger: an extra 50 million people 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 nearly a billion people, rising for the first time in nearly two decades.
- The World Bank estimates that an additional 200,000 to 400,000 babies will die this year because of the drop in growth.

Several recent studies discuss a fiscal stimulus for developing countries involving increased aid and/or global stimulus:

- The World Bank President, Robert Zoellick, has argued that 0.7% of the developed country stimulus, worth around $15 billion, should be used to finance a vulnerability fund for developing counties to spend on infrastructure, safety net and projects for small and medium enterprises (SMEs)
- The IMF has argued for a fiscal stimulus worth 2% of GDP.
- Nancy Birdsall of the Center for Global Development has commented on the financial resources for a cash injection into the world economy and suggests that one $1 trillion could be resourced.
- UN secretary general Ban Ki Moon called for a $1 trillion stimulus package for developing countries on 25 March.
- The campaigning organisation ONE suggests that $50 billion should be provided to Africa.
- Robert Zoellick, announced that the World Bank Group's Board is considering a new proposal: the launch of a $50 billion Global Trade Liquidity Programme.
- A recent study by the National Institute of Economic and Social Research (NIESR) and ODI, simulates the effects of existing G-20 stimuli on sub-Saharan Africa (SSA), as well as a new stimulus of $50 billion (equivalent to the estimated output loss by 2009).

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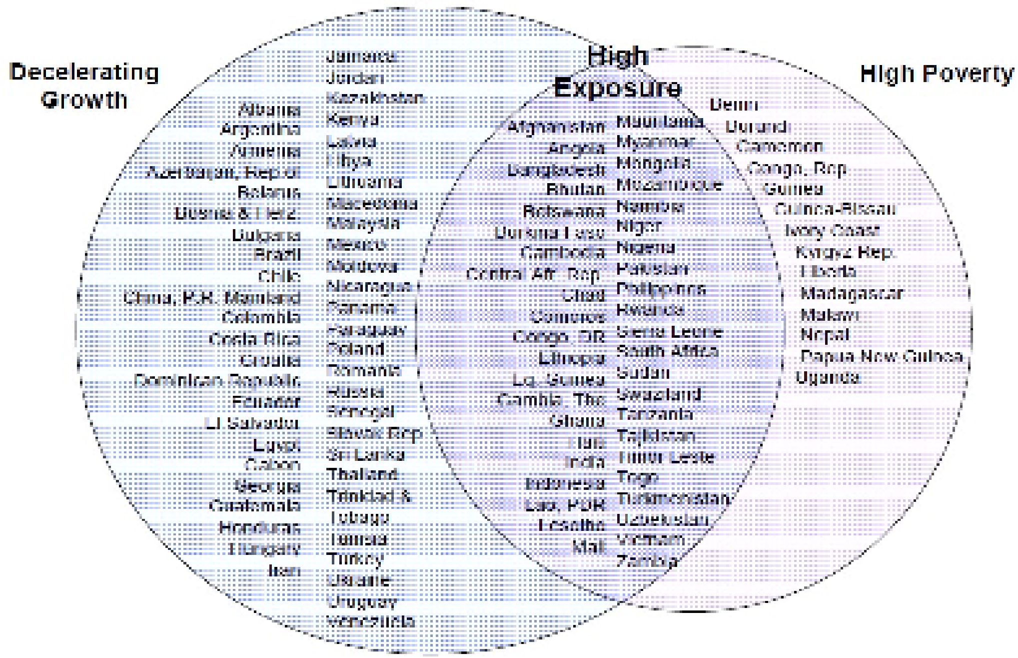
2.2 Vulnerabilities

The World Bank finds that the global economic crisis leads to increased risk of poverty in virtually all developing countries. Around 40 % of developing countries are highly exposed to the poverty effects of the crisis (with both declining growth rates and high poverty levels) and an additional 56 percent of countries are moderately exposed (facing either decelerating growth or high poverty levels), while only less than 10 percent face little risk.

Chart 1 Exposed countries according to the World Bank



Source: World Bank, 2009

Many of the country case studies are in the high poverty-high vulnerability range (e.g. Bangladesh, Cambodia, Ghana, Nigeria, Zambia, Indonesia), some in the high poverty range (Benin, Uganda), others in the decelerating growth range (Kenya) and many in the tight fiscal space range.

Several studies (e.g. Te Velde, 2008; Meyn and Kennan, 2009) have identified when countries are vulnerable to the crisis

- Countries with a significant share of exports to crisis-hit advanced economies
- Economies depending on few commodities or multiple-dependent commodity exporters
- Countries exporting commodities whose prices have dropped or products and services with high income elasticity of demand
- Countries heavily dependent on remittances and/or tourism
- Countries heavily dependent on private capital flows (including FDI, portfolio and Development Finance Institutions) and particularly exposed to the volatility of capital inflows
- Countries with exposed banking sectors and sophisticated but weakly regulated stock markets
- Countries with a high share of foreign-owned banks and foreign assets
- Countries dependent on aid

Similarly some countries are less able to respond to the crisis (Te Velde, 2009, Sen and Te Velde, forthcoming)

- Countries with a high current account deficit with pressures on exchange rates and inflation rates, and low reserves
- Countries with high government deficits and weak fiscal balances
- Countries with high external debts
- Countries with weak policy implementation capacity and weak institutions
- Countries lacking social protection nets

The IMF suggests that around 30% of low income countries could be considered highly vulnerable to the consequences of the global financial crisis (Table 1). About 50 percent of these highly vulnerable countries are in sub-Saharan Africa (SSA). The majority of the highly vulnerable countries face sizable declines in projected GDP, some in excess of 5%. About 60% of the countries are also found to be highly vulnerable to the simulated shock (trade remittances, FDI, aid). More than half of the countries with high vulnerabilities resulting from the simulated shock are also in SSA. The case studies suggest that Ghana and Zambia are highly vulnerable to the effects of the global financial crisis, followed by Bangladesh, Benin, Cambodia, Nigeria. Kenya, Uganda and Bolivia are the least vulnerable.

Table 1 IMF Vulnerability Table

	Changes in Real GDP forecasts Spring WEO proj. 1/ 2009 less 2008 2/	Changes in reserves (months of imports) Spring WEO proj. 1/ 2009 less 2008 2/	Vulnerability Score (Overall assessment) 3/, 4/
Bangladesh	-1.2	0.0	M
Benin	-2.0	-0.6	M
Bolivia	-1.0	-0.7	L
Cambodia	-2.2	-0.4	M
Ghana	-3.4	-1.2	H
Kenya	-0.4	0.4	L
Nigeria	-5.0	-3.9	M
Uganda	-1.0	-0.6	L
Zambia	-2.4	0.2	H
All LICs	-2.1	-0.3	26H, 31M, 3L
SSA	-1.8	-0.2	
Asia	-1.4	-0.2	
MiddleEast/Europe	-3.6	0.0	
LatinAmerica	-2.5	-0.2	

1/ Current projection for 2009 less Spring WEO projection for 2009
2/ Current projection for 2009 less 2008 actual.
3/ Vulnerability to Combined Shock: Trade, Remittances, Aid, FDI.
4/ H = High risk; M=Medium risk; L=Low risk.
Sources: WEO database and Fund staff calculations.

3 Methodology

This paper provides elements of a methodology that can be used by country case studies to examine the impact (so far) of the crisis, possible impacts (economic, financial and social) and the scope and limitations to current policy responses. The main building blocks of the methodology include:

- What are the elements of the **global financial shock** (while effects are still getting worse, there is some agreement on the type and order of the magnitude of shocks)?
- What are the elements of the **shock at the national level** (key area of interest for the current case studies)?
- What are the possible **effects on growth, investment, poverty and inequality and debt**?
- What are the **possible policy implications** (distinguish between actual, possible and optimal policy responses)?

3.1 Shock at the national level

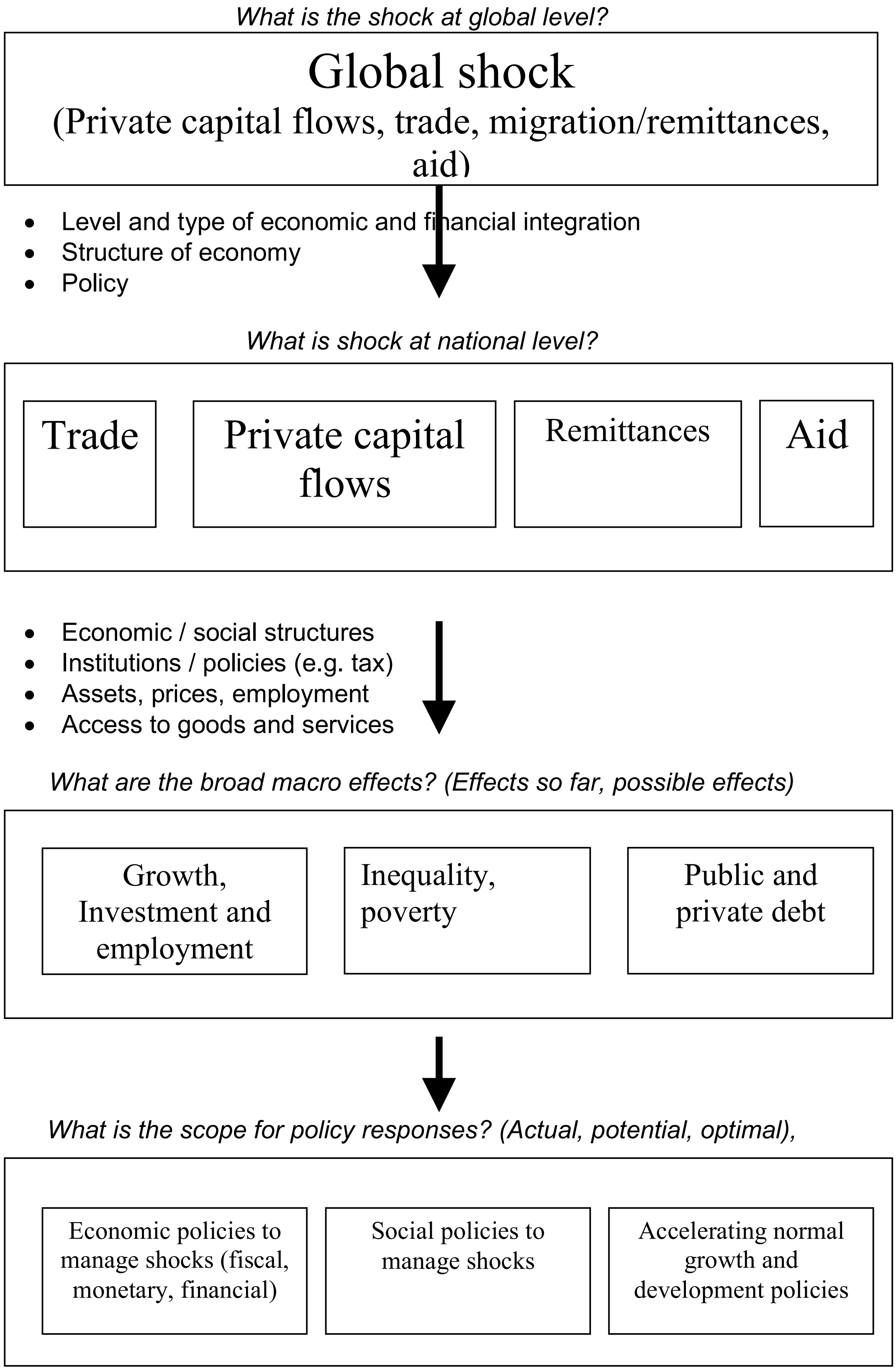
The main task is to examine whether global transmission mechanisms of the financial crisis are already visible at country level. The transmission mechanisms include:

- **International private capital flows** - how are FDI, portfolio and bank lending flows affected?
- **Remittances** – how are remittances and migration flows affected?
- **Trade** – how are trade volumes and trade prices affected?
- **Aid** – are existing aid flows under threat and/or have new announcements and commitments been made?

How does one assess whether the shock is due to the crisis:

- **Before / after comparisons** - for instance what happened before July 2008 and what happened afterwards. This is very crude, but it could be a first guide, especially if no formal models are readily available.
- **Using a model**, implicitly or explicitly - this takes into account other factors beyond the global financial crisis. On **FDI**, one could use existing partial equilibrium models such as Inward FDI = f (GDP home, GDP host, GDP growth host, risk, etc) – various existing bilateral FDI models exist which e.g. suggest that a 1% decline in home (and host) country GDP reduces the stock of FDI to developing countries by around 0.2% (and 0.5%). It may also be possible to use existing CGE models. On **remittances** – a simple model might be REMIT = f (GDP home, GDP host, emigration rate) which some studies have estimated. On **aid** - no need for a model because aid is largely a policy not a behavioural variable such as private sector exports

Chart 2 Mapping out the effects of the global crisis and policy responses



3.2 Effects on growth and development

The financial crisis affects four key types of resource flows to developing countries, including trade, international capital flows, remittances and aid. The transmission mechanisms can be further conditioned by policies and institutions, and it may be possible to sketch out the possible long-term effects. Examples include:

- **Trade and growth** – enhanced trade provides a positive environment (allocative and dynamic efficiency) but the effects on growth and poverty depend on the structure of the economy, composition of trade, and complementary policies and institutions (e.g. human resource development, building local capabilities, competition policy, etc.).
- **Private finance and growth** – FDI sets the conditions (e.g. higher productivity and possible spillovers) but the effects on growth and poverty depend on the structure of the economy, composition of FDI and complementary policies and institutions (e.g. human resource development, building local capabilities, competition policy etc).[4]
- **Migration and growth** – migration provides conditions but the effects on growth and poverty depend on the structure of the economy, purpose of remittances and complementary policies and institutions (e.g. human resource development, building local capabilities, competition policy etc)

These in turn will affect firms and households through a number of key transmission channels, including:

- **Taxes and transfers:** Public and private transfers, tariffs and taxation, including targeted transfers, subsidies, taxes, levies, remittances, etc. What are the effects of the downturn on government budgets and debt (e.g. via fewer mining royalties, corporation tax, VAT etc)? Are stresses already occurring?
- **Prices**: Changes in consumption and production prices, wages, salaries, interest rates and inflation.
- **Assets**: Access to, or control of, assets, including physical, natural, human, social and financial assets.
- **Employment**: Formal and informal employment, including self-employment and employment in household enterprises. Other aspects include security, status and workloads and gender issues.
- **Investment**: Changed capital flows and export opportunities will affect fixed capital investment.
- **Access to goods and services**: People's access to public and private goods and services; may involve removal of barriers or improving the quality of goods and services available.

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[4] See Massa and Brambila Macias (2009).

3.2 Policy responses

The country case studies were asked to distinguish clearly amongst three issues:

- What policies have already been implemented to deal with the crisis?
- What is the capacity of institutions and policy makers to respond to the crisis?
- What are the best policy responses to deal with the crisis?

There are different types of policies that can be discussed in each of the above areas:

<u>Economic policies to manage shocks</u>

- Does the country have the ability to respond with **fiscal policy** - how much is the fiscal deficit and how will the overall budget be affected?
- Can the country engage in **monetary and financial policy** - Is there a need to **draw on international funds, such as IMF or WB funds**? How high are reserves/external debts?

<u>Social policies to manage shocks</u>

- Does the country have a **social safety net** that can be employed to respond to the crisis? How might government interventions protect equity and mitigate against poverty and equity impacts in the face of the global financial crisis? How might government interventions stimulate growth by **improving market access to poor people** (through reducing risk and vulnerability and improving market functioning and access)?

<u>Normal growth and development policies</u>

- An obvious response would be **to accelerate reforms and introduce policies to attract investment and promote growth**. While we know in general what policies and factors promote growth, we know less about the binding constraints in a given country setting. With international capital flows decreasing, binding constraints to growth over the medium term may evolve.
- **Export diversification** is another example of a “normal development policy”. The question is to what extent diversification is appropriate and feasible and whether it should be accelerated. Another question is how a country’s diversification policies are affected by the GFC. Will the GFC offer a ‘chance’ to diversify or will it constrain necessary investment for diversification policies?

4 The shock at the national level

4.1 Private capital flows

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

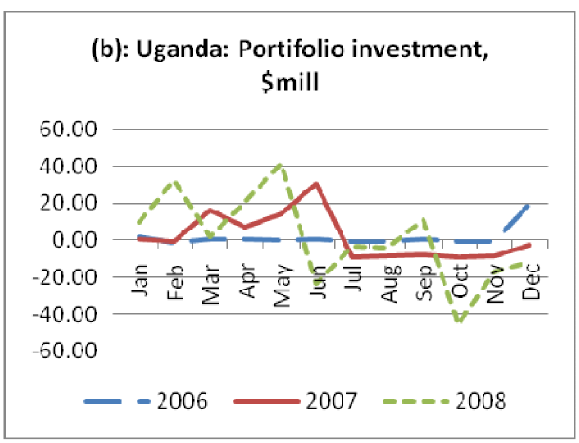
The synthesis on this component suggests that

1. Portfolio investment flows have been dramatically affected 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 the ones 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 chart 3 below).
- 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, while Kenya experienced net portfolio outflows of about $48 million in June 2008 and $12 million in October 2008.

Chart 3 Uganda: Portfolio Investment, 2006-2008

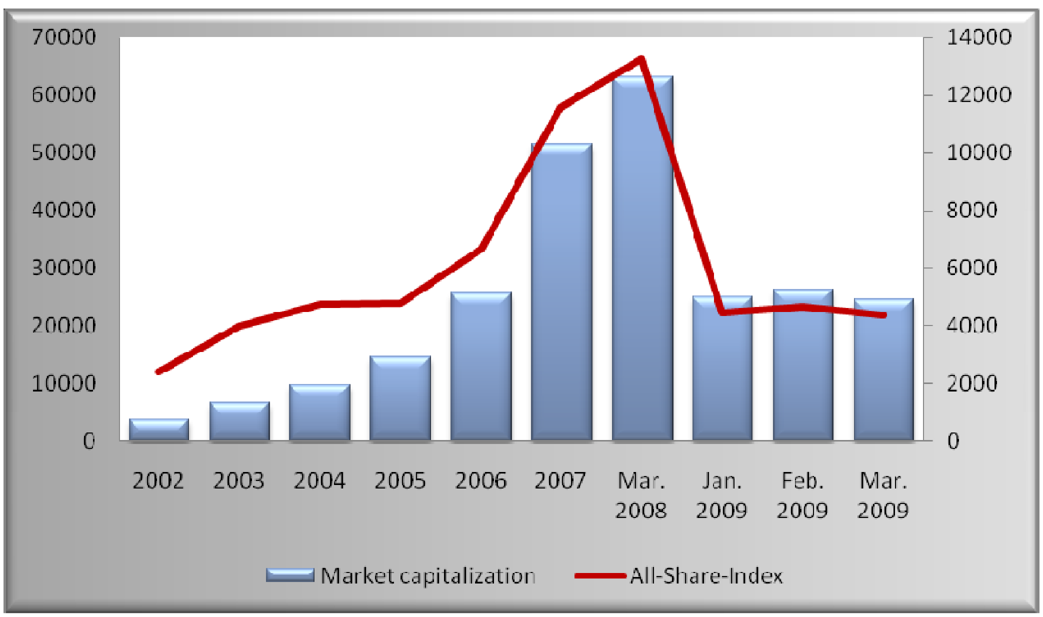


Source: Uganda Country Case Study

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[5] On the other hand, countries like Kenya and Nigeria faced a major drop in portfolio equity flows consistently with the sharp fall of their stock markets. 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 Kenya, the Nairobi Stock Exchange 20-Share Index dropped by 35% in 2008;
- In Nigeria, stock market capitalization fell by 46% over the same year;
- In Bangladesh the Dhaka Stock Exchange indices experienced a negative growth in the period July 2008-February 2009;
- 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 since October 2008;
- In Indonesia, the Stock Exchange Index dropped by 51% in 2008;
- In Uganda, the All Share Index lost 28% of its value only on October 2008;
- In Zambia, the Lusaka Stock Exchange All Share Index declined by 29% over the period December 2007-December 2008.

Chart 4 Nigeria: Stock Market Performance, 2002-2009



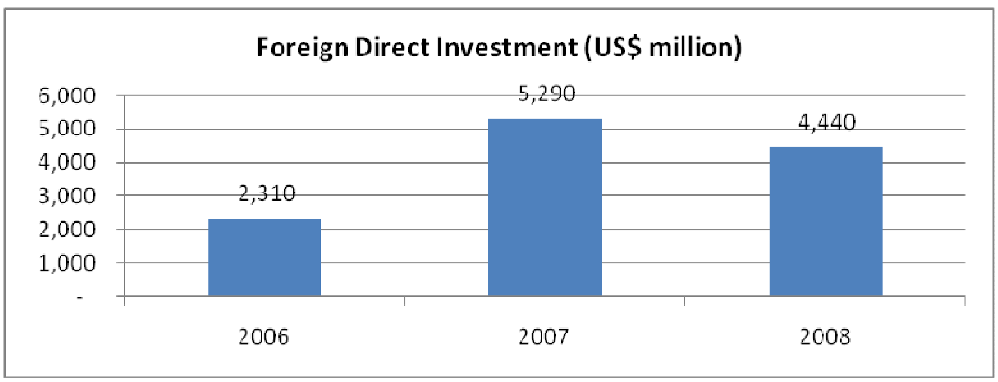
Source: Nigeria Country Case Study

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

In a few countries there was also a considerable decrease in initial public offerings (IPOs), for example in Kenya. For the coming months, the countries which are most vulnerable to a further drop in portfolio investment flows are those with a high degree of foreign investors' 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, such as in Indonesia, Kenya, and Uganda. In other countries, there have been the first signs of a future potential decline in FDI. Zambia, for example, has experienced a holding back and scaling down on investment projects, especially in the mining sector, and in Bangladesh the number of units registered with the Board of Investment has dramatically declined in the period 2007-08. Nevertheless, there are also some countries in which FDI inflows have declined because of the global financial crisis. From 2007 to 2008 FDI decreased by 26% in Benin and 16% in Ghana; and, in Cambodia, there was a decline and even a reversal of FDI growth, see chart 5 below.

Chart 5 Ghana: Foreign Direct Investment, 2006-2008.



Source: Ghana Country Case Study

There seems to be evidence of increased tightening credit conditions regarding **bank lending** in Cambodia, Ghana and Zambia. The standard banking financial soundness indicators suggest that the banking sector in some countries will be more vulnerable to the crisis than that in other countries. While countries such as Bolivia, Cambodia and Indonesia seem to have a sound domestic banking system, over the last year, Ghana and Nigeria have experienced a deterioration of their banks' financial soundness indicators such as ROA, ROE, CAR and NPLs.

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 characterized by a high share of foreign-owned banks. Indeed, few parent banks in Zambia come from the US and UK, and in Benin banks have not relied heavily on foreign borrowing in the past.

4.2 Trade

The openness of the economies varies with some very open countries (Cambodia, Ghana, Uganda, Zambia) and some more protected countries (Bangladesh, Nigeria). All countries except Indonesia and Kenya are either highly dependent on one or very few commodities, or they depend on a concentrated range of simple manufactures (apparels), see table 2 below.

Table 2 Concentration in exports

Country	**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)		

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

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

Commodity price shocks. Nigeria, Bolivia, and Zambia have in the past benefited from increased commodity prices, although the benefits were in terms of value not trade volumes. For **Nigeria**, the dramatic decrease of the oil price (from an average of $100 in 2008 to $40-45 since December 2008) has been the biggest shock. Similarly, the copper price decline has affected **Zambia**. Since the global demand for construction materials is diminishing, copper prices are not expected to recover anytime soon. For **Bolivia**, decreased gas prices/exports are expected to materialize for 2009 but no associated declines have yet been observed. Uganda is also facing large declines in the value of exports. Its exports fell by 10.3% in September 2008 compared to a year earlier, with sharp declines continuing through December 2008. The coffee sector, which contributes nearly 20% of the total exports, fell by 0.8% in December 2008 compared to a year earlier, in value terms, with declines more largely explained by the drop in export prices (of 9.4) than in volume changes.

Manufacturing export declines. Cambodia reports that garment export values in the beginning of this year have already dropped alarmingly from a monthly average of $250 million in 2008 to $100 million in January 2009. The Bangladesh report explains its apparently ‘good performance’ compared to

Cambodia using the ‘Walmart’ effect: Bangladesh serves the lowest price range and US consumers tend to buy more cheap products in response to the crisis. In Cambodia producers tried to position themselves in higher-value niche markets which might, in the short run, be affected more by declining consumption.

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 are affected by declining demand and prices. However, Indonesia is less export dependent than the other case studies (with exports accounting for 10% of GDP). Also, it is much more diversified than the other countries. For electronic products (which account for 15% of total exports) the country reports a fall of 25% (in value terms), when comparing January 2009 with January 2008.

The country teams have paid less attention to the **impact of the GFC on imports.** This could cover how imports have developed, how the exchange rate developed, how they benefited from lower food and fuel prices to the implications for inflation management. **Bolivia** reported that its exchange rate appreciated by 24% from 2007-08; imports increased considerably in this period. **Cambodia** reported a slump on import growth (in value terms). **Ghana** suffered heavily from high fuel/food prices which worsened its trade deficit in the period 2003-07. There is no discussion on how the country currently benefits from lower prices. **Indonesia** reports a slump of import values in January 2009 (y-b-y) by 24%. **Bangladesh** reports some fiscal space as a result of lower food and fuel prices.

4.3 Remittances and migration

There is evidence for a slow-down in remittances in some countries (e.g. Kenya), and in others there are clear signs that remittances will decline in the future due to lower emigration flows or stocks (Bangladesh, Cambodia). Remittances are a fairly important source of external capital for most countries, so this is a key transmission mechanism to watch.

- In **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. Massive increase in out-migration over the last two years (1.7 million) with total number of migrant workers abroad at 6.1 million, but there is a significant slow down in out-migration in recent months and the Malaysian government revoked 55,000 permits to Bangladeshi issued earlier.
- In **Benin,** remittances are not among the most important external sources of capital, and have declined after the peak in 2006.
- In **Bolivia,** there has been 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.
- **In 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.

- **In Ghana**, evidence has emerged indicative of a 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 January2009. Migrants are concentrated in the US and Europe.
- **In Indonesia,** growth in remittances halted in the last quarter in 2008. The total number of Indonesian workers abroad was 4.4 million in December 2008 (almost all in Asia: Malaysia, Saudi Arabia and South East Asia), and migration flows were predicted to reduce with many overseas lay-offs in the near future.
- **In 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** has received a large remittance inflow, but there are some signs of a decline in remittances in the second part of 2008.
- In **Uganda,** remittances account for 3.4% of GDP, and constitute a key source of livelihood for 2% of households. Remittances (as % of GDP) have been declining since 2005/06.
- In **Zambia,** remittances are not a significant source of foreign capital. Remittances have been growing between 2003 and 2007 but this growth seems to have halted in 2008.

4.4 Aid

Some countries are more aid dependent (e.g. Bangladesh) than others (e.g. Kenya). So far there has been little evidence of a pull out of aid, with many reports suggesting donors are engaged in long-term commitments.

Nonethless, there have been declines in aid in **Uganda** where foreign aid decreased from $223.29 million during 2007Q4 to $178.9 million in 2008Q4. Moreover inflows to NGOs in Uganda declined by 5.3% between 2007 and 2008 with the decline more pronounced since October 2008.

Though 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 per cent in the 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 of $1.34 billion by the World Bank for the current fiscal year.

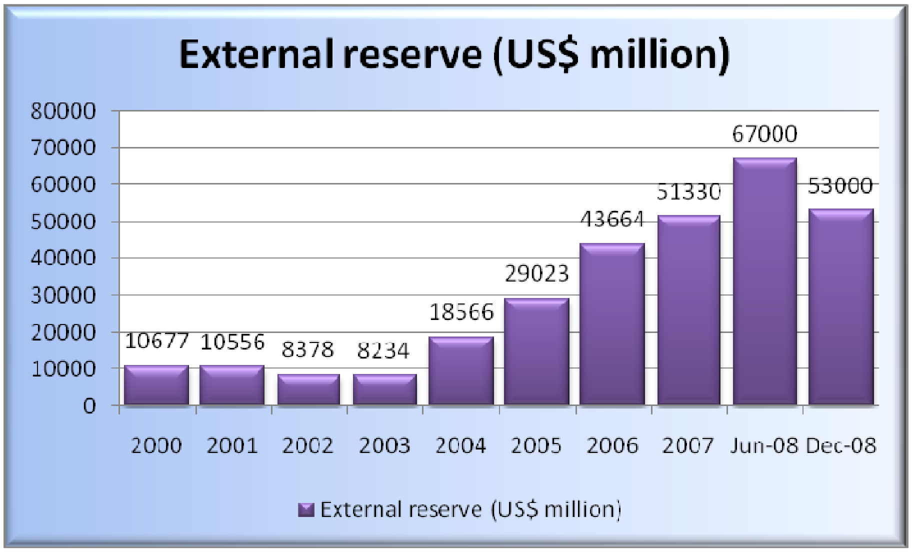
4.5 Balance of Payment shock

The country studies were not asked to specifically examine the nature and extent of the balance of payments shock. Quite clearly there is a capital account shock as countries loose out on portfolio investment and to some extent FDI, although there is *so far* little evidence that reductions in aid have exacerbated the balance of payment shock considerably. Countries are already facing or will be facing declines in export revenues and remittances so there is definitely a current account shock, although some countries also face lower import values (due to lower food and oil prices).

The Balance of Payments in **Bangladesh** still looks healthy, but prospects are dim. The development of the BoP situation depends on whether the trade balance and current account balance will further improve, which 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 (affecting not only non-RMG but also the RMG sector) and remittance flow of Bangladesh, and also the aid situation.

Nigeria 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 chart 6 below).

Chart 6 Nigeria's External Reserves, 2000-2008



Sources: Nigeria case study

5 Growth and development effects

5.1 Economic Growth

Country case studies have examined this in different ways: most have discussed the IMF, WB and / or government macro economic forecasts; some have discussed the growth performance and prospects of key sectors, and a few have discussed growth on the basis of demand components (consumption and investment). All of this requires much more thorough analysis of the details of the transmission mechanisms – for instance different sectors are affected differently (tourism in Kenya and Tourism, manufacturing in Asian countries, commodities in Bolivia, Zambia etc) and different types of firms are being affected differently.

The following country specific observations have emerged:

In **Benin** the IMF expects 3.6% growth in 2009 (government expects 6.1%) compared to 5.1% in 2008.

Growth in **Bolivia** is primarily driven by three sectors: mining, hydrocarbons, and construction. It is expected that economic growth will decelerate, because of the external shocks resulting from the international crisis. Exports are expected to stagnate in the coming months, and even decrease. Hydrocarbons exports have already shown a downward trend in the last 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.

Kenya's GDP grew at 7% in 2007 and slowed to 4% in 2008 (due to political turmoil) and now expects only 3% growth in 2009. Focusing on actual GDP data from 2008Q3 which coincides with the GFC, real GDP grew by 2%, compared to 3% in 2008Q2 and -1% in 2008Q1. The worst performance compared to 2007Q3 was in hotels and restaurants due to the poor performance of the tourism sector (-35%), but this may also be due to the political turmoil. This is followed by agriculture (which is rain-fed) and manufacturing which registered negative growth.

The **Nigeria** case study suggested that a GDP growth rate between 7 to 9% is still possible in 2009 -despite the economic crisis, and if the economic recession is short.

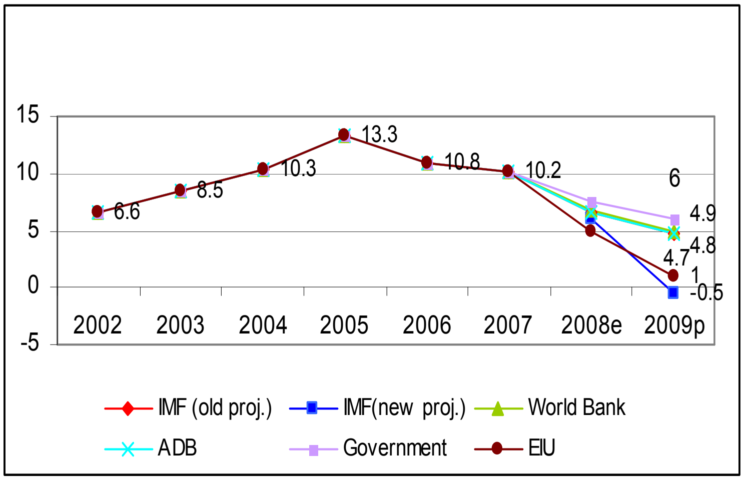
The Ministry of Finance, Planning and Economic Development in **Uganda** expects growth to decrease from 8.9% in 2007/08 to 6-7% in 2008/09, while the EPRC expects 5.6%. The reduction in growth will mainly come through reduction in export growth, and lower private consumption and investment. The reduction in growth in manufacturing, construction and trade sub-sectors, the main drivers of growth, will affect overall growth.

The **Zambian** economy performed well during the first half of 2008. But in the third quarter when the prices of copper dropped, growth declined and actual growth was lower than expected. The government withdrew the MTEF for 2009 – 2011, in order to revise the projected growth rates. Whereas the original MTEF projected growth to be 7% in 2009 and 2010, it was revised to 5% and 5.5% respectively in the light of the worsening global financial crisis. The sectors that were significantly affected by the global financial crisis are mining, tourism, manufacturing and construction activities connected to the mining sector. The most severe impact was on mining.

In **Bangladesh**, while the first quarter (July-September) of FY2008-09 showed industrial growth of 13.5%, the first month in the second quarter (October, 2008) achieved only 1.5% month-to-month growth over October, 2007.

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) to 6% (government estimate) in 2009 (see Chart 7). All the sectors that were important drivers of recent growth in Cambodia (e.g. garments, construction, tourism) have been hit hard.

Chart 7 Real GDP growth, actual and forecasts



Source: Cambodia case study

Indonesia showed resilience towards the Global Financial Crisis up until September 2008. However, during October-December 2008 period, the country's economy experienced a 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% (previously 5% in 2008).

5.2 Development and poverty

Determining the poverty and human development impacts of the crisis is difficult. The crisis has not yet fully transmitted through the developing countries' real economies, nor is 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 following 'impacts' solely to the financial crisis. Nonetheless, we can examine key transmission mechanisms through which macro-level shocks reach poor people. These include: employment, taxes and transfers, prices, and government budgets.

Employment. Loss of employment has been a striking feature of the global financial crisis in the case studies. The loss of income has important poverty and human development implications. It undermines a household's ability to purchase basic needs (i.e. food, rent) and can lead to adverse coping. In **Zambia**, for example, 27% (8,100 workers) of workers in the mining sector have lost their jobs in 2008. A recorded 15,000 construction workers in **Cambodia** were laid-off in mid-2008. This has led to some de-urbanisation, as some of these workers had no choice to return to their provinces. The garment industry has been hardest hit with 15 factories closing in the past six months since September 2008, representing job losses of approx 51,000 people, many including women[6]. 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 results of the current crisis. A simulation exercise in **Bolivia** predicts rising unemployment as a result of lower remittances (3.0%) and mining exports (1.6%).

Taxes and Transfers. Private transfers contribute to a household's consumption and investment in human development (i.e. education and health). In **Kenya**, the World Bank (2006) estimates that remittances reduce the number of people living in absolute poverty by 8.5%. Remittances are falling in many countries. The figures are evident in the remittance section of this report. Based on a study in Uganda (05/06) a quarter of the remittances are intended to pay for education expenses. A drop in remittances will have implications for children's access to education– and impact these children's ability to engage in economic opportunities in an upturn.

Prices. International food and fuel prices have started to fall in the second half of 2008, yet high inflation in some countries has long persisted. The fall in prices is lagging behind the decline in commodity prices in many countries[7]. Poor people spend between 50% and 70% of their income on food – thus food price inflation, or a rise in the price of food, will have important human development implications. 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. **Kenya** saw inflation rise from 18.8% in January 2008 to 21.9% in January 2009, and most recently inflation was at 25.1% in February 2009. Some reminaing inflationary pressures, despite lower commodity prices may be explained in some by depreciating local currencies.

However, not all countries are experiencing inflation, and most are likely to see lower inflation. **Bangladesh**, for example, has seen a declining trend in inflationary pressures between July 2008 and January 2009. Lower prices for food in **Cambodia**, however, will also mean lower income and more difficult circumstances for farmers - especially those who responded to high commodity prices in the first half of 2008 by taking loans to expand production.

Government budgets and access to goods and services in many countries' social services, and poverty reduction plans are supported by overseas development assistance and private flows of funds. These are falling in some countries. In **Uganda**, inflows to NGOs declined by 5.3%

[6] Apart from the lay-offs, higher underemployment is reported. Workers are being forced to work lesser hours and overtime. Females dominate this sector – underemployment can put a further strain on the household, as women have less time to manage the household, and care for children and sick.

[7] Blas, J (2009) Poor still hit by high food prices, says UN. Financial Times. Global Economy Section. March 19, 2009. Link: http://www.ft.com/cms/s/0/a7d696d0-1412-11de-9e32-0000779fd2ac.html

between 2007 and 2008, with the decline more pronounced since October 2008. On the other hand - the World Bank in **Cambodia** has committed $10m in emergency budget support to the government, earmarked for social protection activities, which should mitigate against some long term human development impacts.

Reduced revenue and expanding debt (due to currency depreciation) invrease the pressure on government budgets[8] – and squeezing 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 2008/9. The proportion of **Zambia's** 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. The **Ugandan** case study states that "Government is left with only one option – to cut public expenditure by cutting the budgets of some ministries and departments". In **Bolivia** the price of hydrocarbon has been behind much of the government revenues, so a decline in these prices will lead to lower budgets.

Nonetheless, some countries have increased the proportion of budget allocation for social safety nets – **Bangladesh**, for example has seen an increased share of expenditure allocated to social safety nets rising from 3.5% in the 2007/08 budget to 6.8% in the 2008/09 budget[9]. The country report suggests that about 0.5 to 0.9 million fewer people will come out of poverty in 2009 compared to the expected level due to the global financial crisis.

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

9 Whether this is a response to the global financial crisis is unclear.

6 Policy responses

6.1 Economic policies

Economic policy responses to address the fall out of the global financial crisis ranges from continue business as usual to a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia), or implementing fiscal stimuli (Indonesia), yet 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 on 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.

Some countries have introduced a fiscal stimulus. In **Indonesia**, priority is on maintaining financial market stability. Given reduced growth projections the government has approved a fiscal stimulus package of 2.6% GDP. Measures have been introduced to reduce inflationary impacts on households; the 'rice for the poor' program will continue in 2009. The government has launched 'labour intensive infrastructure' projects.

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 announcement, and there is 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. These include: the government abolished the windfall tax and increased investment incentives. **Uganda** has not made any significant move in response to the financial crisis. **Kenya** has not articulated a strong view on how to handle the GFC. A task force has been set up to look into ways of cushioning Kenya's economy from the adverse effects of the GFC. 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 these actions are not enough to significantly achieve these objectives. Besides actions by the CBK, the government has initiated a number of programmes which however may not be directly linked to the GFC. **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

6.2 Social policies

There is a wide range of social policy responses within the case study countries. These range from significant reductions in social sector allocations overall (Nigeria and Zambia) to countries where, with donor support, social protection provision is being extended rapidly from a low base, in response to the crisis (Cambodia), to others where a well developed system is being expanded to respond to increased need (Indonesia). The key factors determining the scale of the social protection response to the crisis may be identified as the extent of revenue contraction, the ability of the government to access resources to finance the fiscal deficit, and the pre-existence of a social protection system.

Some countries have not shifted their social policies in repose to the poverty impacts of the financial crisis. **Bangladesh** has seen a combination of the introduction of new programmes and the expansion of existing programmes on a significant level from 2008 onwards[10]. However, the report indicates that government did not relate these initiatives to the ongoing crisis. **Cambodia** has unveiled plans for a stimulus package that involves augmented spending on social programs. However, many of the measures proposed in the “fiscal stimulus” package already feature in the government’s budget, so cannot be considered as additional. With World Bank funds it will be able to expand its response to the financial crisis. **Uganda** has not made any significant move in response to the financial crisis.

Some social policies are being scaled down due to reduced budgets. **Zambia** was intending to scale up the Social Cash Transfer Scheme as its major Social Protection strategy, but has cut budget allocations to this sector[11]. **Nigeria’s** Federal government has created a Presidential Steering Committee, to develop a strategic response to the macroeconomic and social protection impacts of the crisis, but it intends to cut public expenditure enormously.

Some countries have reacted to the financial crisis. **Indonesia** announced a fiscal expansion initiative with an additional Rp12 trillion ($960m) for infrastructure projects, which will include Rp 5.57 trillion ($0.5 billion) for public work projects, (7.5% of total fiscal stimulus allocation). The 2009 budget indicates a 30% increase in budget for ‘Social Protection and Direct

10 For the Vulnerable Group Feeding (VGF) the current number of 5.65 million beneficiaries was further extended by inclusion of 1.5 million new beneficiaries. At the same time allocation was also increased to 15 Kg of rice from 10 Kg per card holder. The government has also planned to extend the allocation under both Food for Work (FFW) and Test Relief (TR) programmes. FFW is the employment generation for the poor in slack season and TR is the employment generation for the poverty stricken people in rainy season. The government has recently decided to introduce food rationing for more than 2.5 million readymade garment (RMG) workers at a subsidised rate from April, 2009.

11 The government is planning to reduce allocations to this sector in 2009 as a result of the crisis, and over 80% of the allocations to social protection in 2009 are accounted for by the public service pension fund (compared to 75% in 2008), leaving less than 20% of a reduced total allocation for social assistance provision for the vulnerable.

Intervention Programs' over 2008 - primarily allocated to extending free health care, and community development programmes (the PNPM), and increasing by 25% the allocation to the rice subsidized rice programme for the poor.

6.3 Institutional context for policy making

Several countries have responded by setting up a new crisis task force[12] or building on existing institutions. It is too soon to judge the effectiveness of the institutional set-up 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 Task Forces made of government officials, and announced recently a National Task Force comprising 27 members with the Finance Minister as convenor. **Cambodia** already had a set of task forces, public private working groups and an economic government think tank which, together with the severe context, may have helped a rapid response. In response to worsening condition in the global economy, the Government of **Indonesia** has taken both reactive and proactive measures. The Government and the Central Bank had 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 task force has been set up to look into ways of cushioning **Kenya**'s economy from the adverse effects of the GFC. It is 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 ensured from the unilateral and abrupt changes to the mining fiscal and regulatory regime and the lay-offs resulting from the impact of the global financial crisis has 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 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 to the GFC was slow or the adopted stand was that of indifference in the country. There appeared to be no task force in **Uganda** which could lead to ineffective and less well co-ordinated responses: some government officials suggested that now is the "time for government to be more inward looking than before – relying on external sector is not prudent."

12 See suggestion for setting up a task force in each country in http://www.gc21.de/ibt/en/ilt/ibt/programme/megacities/media/gfc_velde.pdf

7 Conclusions

This draft report provides a preliminary synthesis of ten country case studies on the impact of the global financial crisis on developing countries. The main elements of the research in the case studies included

- What are the elements of the shock at national level (key area of interest of paper)
- What are the possible effects on growth, investment, poverty and inequality (to some extent speculative)
- What are the possible policy implications (to some extent speculative)

It has to be emphasised that this is only the start of our monitoring work, that the country case studies were conducted over a short time frame and that further effects are likely to be visible later. Yet we have already seen important messages:

- Portfolio investment flows experienced a dramatic drop in 2008, shifting sometimes to large net outflows and a significant drop in equity markets in 2008 and into 2009.
- FDI inflows have so far been less volatile. The case studies highlight that the crisis has had little impact so far on FDI, such as in Indonesia, Kenya, and Uganda. In other countries, there has been beginning signs of a future potential decline in FDI.
- There seems to be evidence of increased tightening credit conditions regarding bank lending in Cambodia, Ghana and Zambia.
- Cambodia reports that garment export values in the beginning of this year have already dropped alarmingly from a monthly average of $250 million in 2008 to $100 million in January 2009.
- 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.
- Significant growth revisions in all countries. For example, Cambodian growth to decline from more than 10% in 2007 to close to zero in 2009. The second quarter of FY2008-09 (October-December 2008) experienced the first time negative growth (y-on-y) on Bangladesh's export in recent history

There are also important effects with respect to human development

- Cambodia lost 51,000 garments jobs lost in recent months, 15,000 of the jobs recorded in mid-2008 were lost in the construction industry
- Zambia lost 8,100 of the 30,000 mining jobs lost in 2008
- Kenya: remittances down by 27% in Jan 2009 / Jan 2008
- Uganda: aid declines in 2008
- Ghana: drop in remittances from $8 million remitted in Oct-08 to $6 million in Feb-09, and a decline of 10-13% in money transfer between Jan-08 and Jan-09
- Bangladesh: emigration down by 38.8% (Feb 2009/Feb2008)

- 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.

In terms of general trends, we find that

- There is evidence of pull out of portfolio flows
- Not yet on FDI, but there are signs of future declines
- Withdrawal of bank lending has remained anecdotal
- There is already evidence on declines in emigration and remittances
- Sporadic evidence of aid withdrawal
- Evidence of trade shutdown in some manufacturing
- Evidence of reduced exports through lower commodity prices

Economic policy responses to address the fall out of the global financial crisis range from continuing business as usual to using a pro-active approach. Some countries are considering, implementing or accelerating growth policies (e.g. Cambodia), or implementing fiscal stimuli (Indonesia), yet in others there has only been a very small monetary policy step and not much else (e.g. Kenya). The research has found that some countries (e.g. Kenya, Ghana, Bangladesh, Nigeria) have established a crisis task force which may help countries to respond to the crisis.

There is a wide range of social policy responses within the case study countries. These range from significant reductions in social sector allocations overall (Nigeria and Zambia) to countries where, with donor support, social protection provision is being extended rapidly from a low base, in response to the crisis (Cambodia), to others where a well developed system is being expanded to respond to increased need (Indonesia). The key factors determining the scale of the social protection response to the crisis may be identified as the extent of revenue contraction, the ability of the government to access resources to finance the fiscal deficit, and the pre-existence of a social protection system.

This is only the beginning and we suggest it is important to continue the monitoring of the effects of the global financial crisis on developing countries.

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Appendix 1 Lessons from monitoring high frequency data, some examples

Kenya: ODI reported remittances down by 40% (y-on-y) in August 2008

“But remittances actually increased in 2008, by 6.6% compared to 2007. As seen in Table 2.4.1, remittances were quite volatile in 2008, but there was a general downward decline from May 2008, even though they increased in September and October 2008. Remittances declined by 27% in January 2009 when compared to January 2008. But according to CBK, remittances are pro-cyclical and tend to follow developments in the economy so that the trend may not reveal much.”

Bangladesh: UN DESA reported an 8% decline in aid

“Though aid’s role has been on the decline over the past years, it still accounts for about half of Bangladesh’s expenditure on development budget. However, till now no adverse affect is visible in this regard. The figures for July-December FY2008-09 indicate a decline of (-) 8.0 per cent in the net foreign aid disbursement in Bangladesh, with gross disbursement falling slightly from $903.2 million in FY2007-08 (Jul-Dec) to $898.3 million in FY2008-09 (Jul-Dec) (Table 7). Commitment figures for FY2008-09, however, looks promising with highest ever commitment of $1.34 billion by the World Bank for the current fiscal year.”

Cambodia: Tourism bookings down by 40% in October 2008

“Tourism, again one of the four principal drivers of Cambodian growth, has been experiencing setbacks since last year. Its positive growth was initially projected by everyone to continue in 2009 though at a lower rate. However, the IMF has recently revised the growth of tourism to be -5%. This flagging pace can certainly be attributed to the widespread recession which compelled tourists from the richer countries to diminish the frequency of their travels. However, it must be noted that other factors are similarly accountable for the weakening in Cambodia’s tourism sector. It must likewise be noted that there appears to be no consensus on the depth of the downturn in the industry or its associated impact on domestic revenues.”

Kenya: Several reported that Kenya is unable to issue sovereign bonds

“These projections have been adversely affected by the global financial crisis. The government for example has not been able to sell off parastatals such as the National Bank of Kenya and the Kenya Wine Agencies while the $500 million sovereign bond was suspended, while the Kenya Revenue Authority was not able to achieve its target for the first quarter of the financial year (by Ksh 10 billion), although it was able to do so in the second quarter.”