



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

## 2 more pledges

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### The Global Financial Crisis, Developing Countries and Policy Responses

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

**The impact of the crisis on poverty**  
Previous financial crises have increased poverty - sometimes dramatically. In Asia, the impact was particularly severe. In the current crisis, it is not yet clear how many developing countries will be affected, but it is likely that the impact will be significant. Poor households are likely to be hit hard and poor people already at risk of falling into poverty are likely to be particularly vulnerable.

**Policy recommendations on poverty impacts of the crisis**  
There is a need to better understand poverty and inequality in developing countries and to identify the impact of the crisis on poor people. There are opportunities to strengthen and improve social protection systems and programmes and to improve long-term programmes through public-private partnerships. It is important to build on the experience of the crisis and to support vulnerable businesses, particularly in the area of saving with changes of credit and reduced interest rates.

**The crisis represents an opportunity to support the issue of social protection in many poor countries (see page 7)**  
Current systems of social protection in developing countries are often fragmented and uncoordinated. The substantial body of evidence shows that social protection programmes can have a significant positive impact. For example, the Dominican Republic's Renta Condicionada cash and in-kind transfer conditional on school attendance and regular health check-ups, is a good example. Conditional cash transfers can also improve educational achievement by

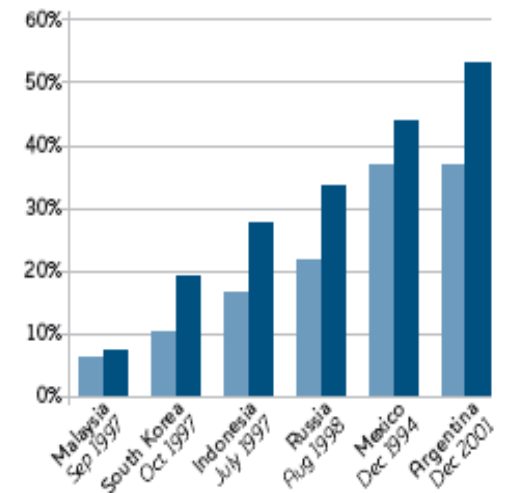
**Figure 3: Poverty impacts of selected financial crises**

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# Poverty estimates of the crisis

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

Figure 1: Poverty impacts of selected financial crises



- Depends on growth/poverty assumptions;



## Latest estimates of lost growth

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



## Evidence from previous crises

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



## What should the EC do?

- **Rapid real-time poverty tracking:** link the MDGs with vulnerability indicators; and do rapid appraisal including people's own crisis indicators;
- **Social Protection beyond a paragraph (p.8):** Make SP objective-led *then* plan instruments (not vice-versa); go beyond transfers to EC aspirations of transformative SP; build local ownership (via dialogue, CSP review, design).