Impact of the World Financial Crisis on Poor Countries

Examples from sub-Saharan Africa
Is Africa affected by the Financial Crisis?

Because of Africa’s generally weak financial integration with the rest of the global economic system, it was believed that the financial sectors of many African countries would not be directly affected by the crisis.
This is largely true, because:

• The African Banking Sector relies on domestic deposits and lending and usually does not have derivatives or asset-based securities among their portfolio.

• Even though some banks have significant foreign ownership, the parent banks are typically not from the US and the foreign ownership share relatively small.
BUT: African countries were indirectly affected

- Poor countries suffered most from the consequences resulting from the direct effects of the Crisis on advanced or emerging countries.
- Even though indirectly hit, the impact was nevertheless severe because of the general vulnerability of African Economies to even minor external shocks.
Example Ethiopia

• Very poor: Average income 120US$/year (average Sub Saharan Africa is 600 US$)
• 44-50% of population below poverty line
• Semi authoritarian one party government, but very little corruption
• Large state bank (controls 74% of assets)
The World Financial Crisis affected Ethiopia mostly indirectly in the following ways:

• About one third of the government budget is donor dependent

• Ethiopia's export declined both in volume and value. As recession spread around the developed economies and the emerging ones, it was expected the demand for exports would decrease.

• Foreign Private Investment went down

• Remittances declined

• Tourism revenue had been on the increase, the country got less as the recession deepened
Example Kenya

- Wide gap between very poor and very rich (GINI of 0.43), esp. in Nairobi
- Multiparty presidential democracy along ethnic divides
- A lot of corruption and fraud
- Marked based economy, private banking sector, Stock Exchange 4th largest in Africa
- „financial hub of Eastern and Central Africa“
Example Kenya ctd.

**Direct Effects: Capital Market**

- The NSE 20-share index has taken a hit since mid-2008 and slumped by 35 %, e.g. because of the slowdown of investment from Hedge Funds

- Strengthening of US Dollar against Kenya Shilling has resulted in **depreciating Kenya Shilling** (impacts on import, export and debt service!)
Example Kenya: Indirect effects

Indirect effects:

• **Export earning**, especially horticulture (Flowers, tea, coffee) is assumed to go down.

• **Slump in tourism**: 2008 54% less than 2007 (Main source of foreign currency!)

• **Remittances** are down

• **Reduced foreign direct investment**
Example Foreign Direct Investment

Net Foreign cash flow activity for the period March-October 2008
Ongoing legacy: Job losses

• Worldwide, the World Economic Crisis destroyed 30 000 000 well paid jobs
• In Sub-Saharan Africa, unemployment continues to rise (young populations!),
• The share of vulnerable employment and working poor remains beyond 80%. No improvement expected
• Worst hit were export oriented economies. In Zambia, December 2009, 8500 jobs out of 30000 in the copper sector were gone.
Figure R10 Sub-Saharan Africa: Unemployment, employment, vulnerable employment and working poor

[Graphs showing data for unemployment, employment, and vulnerable employment over time.]
Figure R10: Sub-Saharan Africa: Unemployment, employment, vulnerable employment and working poor (cont.)

Vulnerable employment (million) | Share of vulnerable employment (%)

Working poor (million) – USD 1.25/day | Working poor as a share of total employment (%)

Working poor (million) – USD 2.0/day | Working poor as a share of total employment (%)
Result: Impact on household spending

In an industrial country, the proportion of expenditure for food in a typical household budget amounts to 10% - 20 %, whereas it is between 60% and 80% in the LDCs!
FAO Food Price Index

* The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)
Result on budgets and public spending

State Revenues for LICs fell 60% in 2009, with dire consequences on the ability of states to cushion the crisis impact for their populations or continue progress towards the achievement of the MDGs.
Millennium Development Goals

1. Eradication of Extreme Poverty and Hunger
2. Achieve Universal Primary Education
3. Gender Equality
4. Child Health
5. Maternal Health
6. Combat HIV/AIDS
7. Environmental Sustainability
8. Global Partnership
MDG progress depends on context

• According to UNDP, mixed progress within regions demonstrates that MDG progress is country specific.

• Sub-Saharan Africa, for example, has seen volatile fluctuations in poverty: falling in Ghana between 1999 and 2006, but increasing in Uganda between 2000 and 2003, despite comparable GDP growth.
MDG “Achieve Universal Primary Education” (1)

- Burundi, DRC, Ethiopia, Ghana, Kenya, Malawi, Mozambique, Tanzania and Uganda have abolished school fees which has led to a surge of enrolment. (Who made up for the losses?)

- Specifically in Kenya 1.2 million additional pupils in 2003, by 2004 climbed to 7.2 Million of which 84% were of primary school age. Challenges exist in providing sufficient school building and teachers
MDG “Achieve Universal primary Education” (2)

- Specifically in Ethiopia during 2007/2008 total primary enrolment reached 15,341,121 pupils which brought up the Gross Enrolment ratio to 96.7% from its level of 91.6% in 2006/2007.
- During the same period 1,992 primary schools have been constructed which brought total number of primary schools in the country to 23,235.
- This progress is supplemented by the fact that 80% of the constructed schools are located in rural areas and with improved awareness of the community towards girl education.
MDG progress also depends on Money

- Although **ODA directed to basic education** for low income countries increased from **$1.6 billion** in 1999 to **5 billion** in 2006, the amount is even before the World Financial Crisis well below the estimated **$11 billion** in aid required annually to reach universal primary education by 2015.

- Spending levels were further affected by the Global financial crisis. In both Kenya and Ethiopia the budget had to be adjusted given the reduction in government revenue.
Lacks and Needs

• “Although African countries were growing faster before the crisis, the growth rates were still not sufficient to achieve the MDGs.”

• Now, after the crisis, “at least USD117 billion are needed to propel the continent on a higher growth path to give it a chance to reach the MDGs.”

The Committee of African Finance Ministers and Central Bank Governors, March 2009
Promises and Prospects

“The 2005 Gleneagles Summit committed to raising aid to Africa by USD25 billion per year until 2010. This is virtually half the amounts needed to only allow African countries to maintain their pre-crisis growth rates, which is definitely not sufficient to bring the continent anywhere closer to meeting the MDGs.”

The Committee of African Finance Ministers and Central Bank Governors, March 2009
## DAC Members' Commitments and Performance: Summary Table of OECD Secretariat Projections

15 February 2010

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[www.oecd.org/dac](http://www.oecd.org/dac)

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734.8  529.1  234.0
Kampagne „Steuer gegen Armut“

Steuer gegen Armut: Die Finanztransaktionssteuer

Willkommen auf der Website der Kampagne „Steuer gegen Armut“. Im Anfang steht unser ökonomisches Ziel, die neue Bundesregierung, in deren Wir die Einführung einer Finanztransaktionssteuer zur Förderung von Entwicklung und Bekämpfung von Armut fordern.

Auf dieser Website wollen wir das Ziel unserer Kampagne näher erläutern und fundieren, über aktuelle Entwicklungen informieren, Materialien für die Diskussion anbieten und Mitmachmöglichkeiten bereitstellen. Hier finden Sie eine Vielzahl von Links, die Sie auf Ihrer Reise durch unsere Website begleiten werden.

Ziel unserer Kampagne ist es, die Wahrheit, dass die Finanztransaktionssteuer einen wahren Beitrag zur Bekämpfung der Armut in Deutschland leistet, bekannt zu machen. Die Steuer ist eine wichtige Quelle für die Finanzierung von Entwicklungszwecken und anderen sozialen Projekten.

Wir sind derartige aktuelle Informationen, dass wir Ihnen zu diesem Thema eine aktuelle Information und eine detaillierte Ausarbeitung liefern. Zudem sind wir bereit, Ihnen zukünftig noch mehr Informationen zu liefern.

Wir hoffen, Ihnen mit unserer Arbeit zu dienen.


*Jede neue Idee durchläuft drei Entwicklungsschritte. In der ersten wird sie beäugt, in der zweiten beleckt, in der dritten ist sie selbstverständlicher.* (Arthur Schopenhauer)