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)

Largely indirect Impact

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

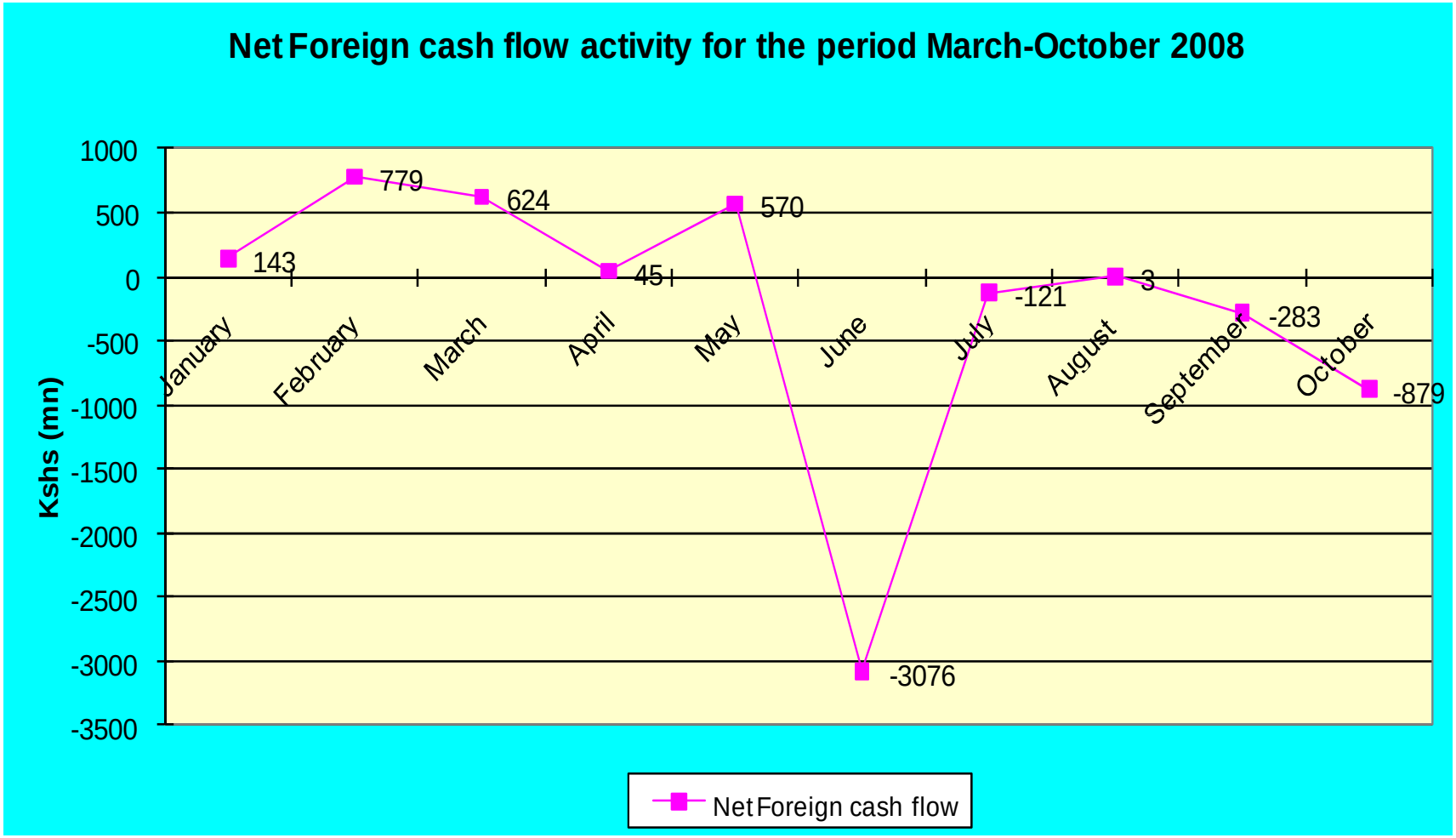
- The NSE 20-share index has taken a hit since mid-2008 and slumped by 35 %, e.g. because of the slowdown of investment from Hedge Funds
- Strengthening of US Dollar against Kenya Shilling has resulted in **depreciating Kenya Shilling** (impacts on import, export and debt service!)

Example Kenya: Indirect effects

Indicrect 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



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

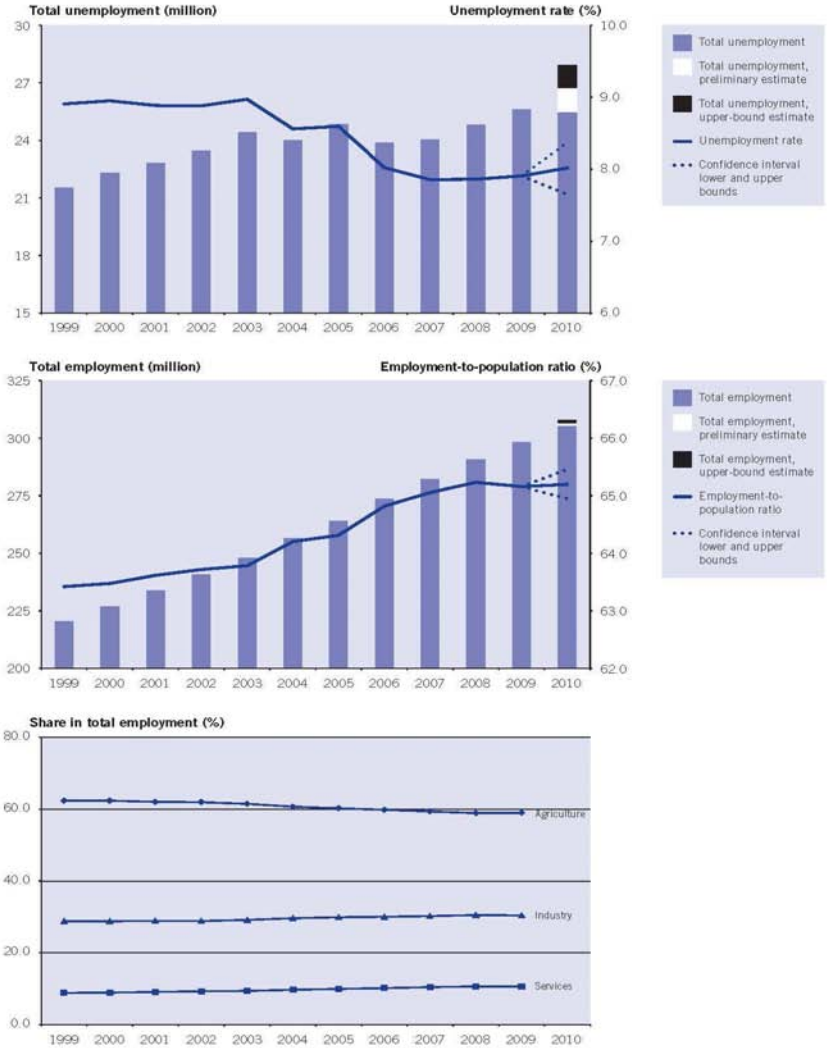
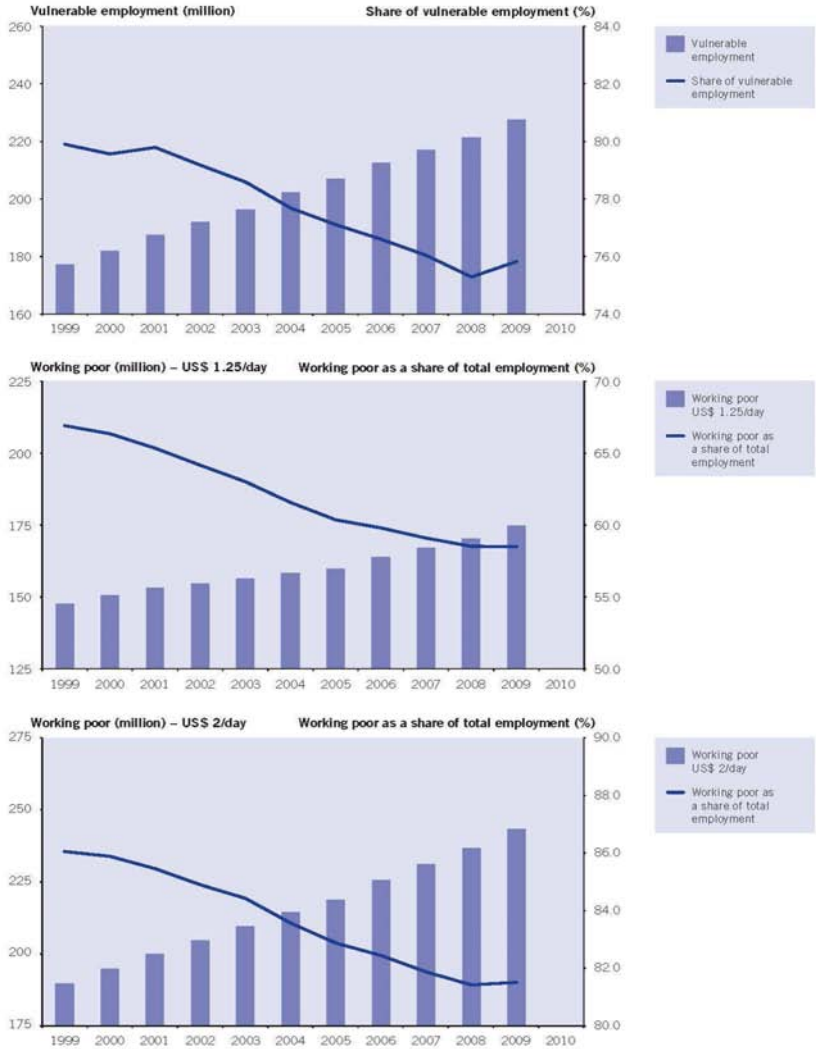
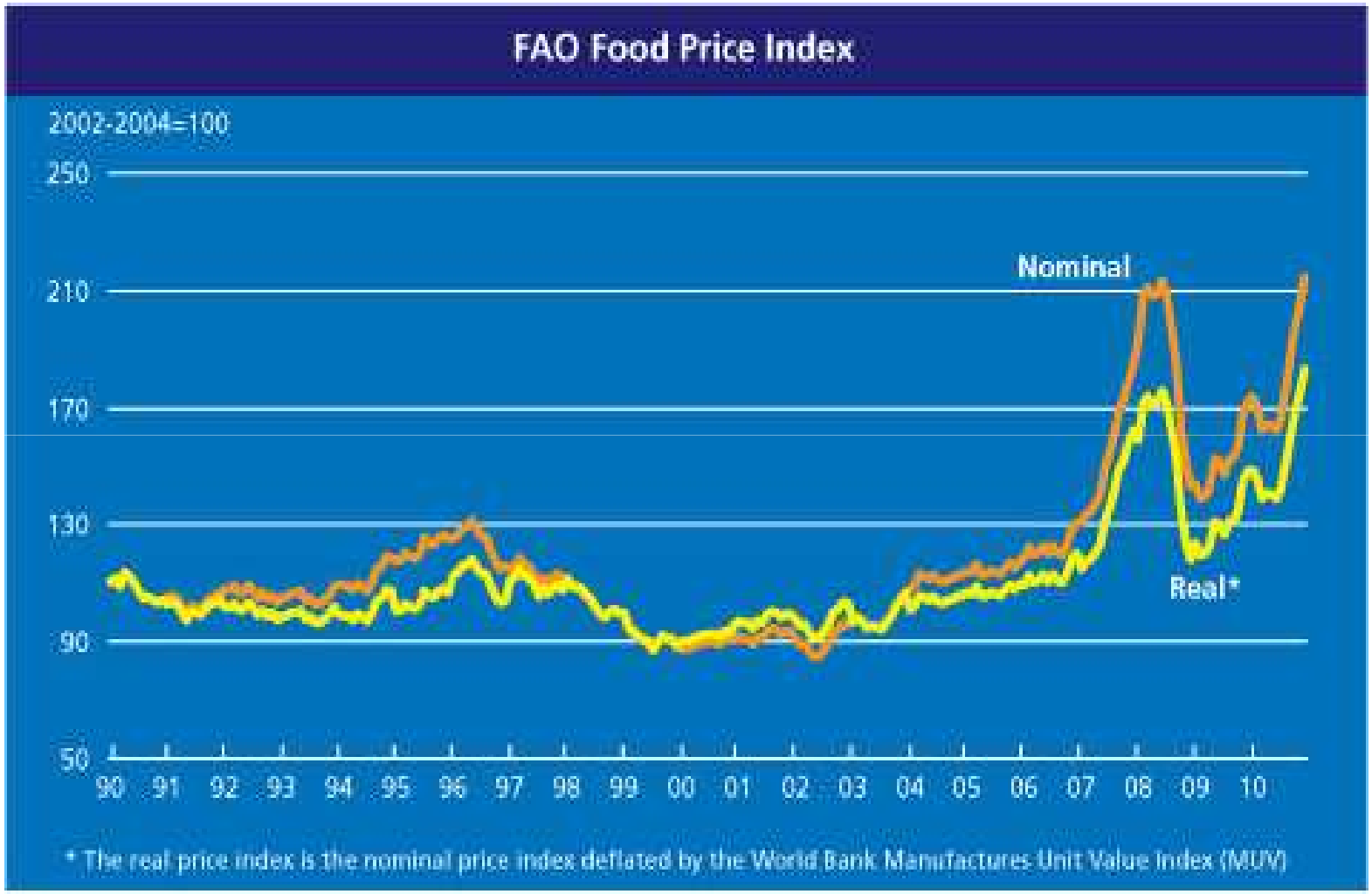


Figure R10 Sub-Saharan Africa: Unemployment, employment, vulnerable employment and working poor (cont.)



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
2002-2004=100
250
210
170
130
90
50
Nominal
Real*
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10
* 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

Country	Actual ODA 2004	Net ODA (2004 USD m) 2005 projection for 2010	Net ODA (2004 USD m) Growth-adjusted 2005 projection for 2010	Net ODA (2004 USD m) Current projection for 2010	ODA/GNI Actual 2004	ODA/GNI 2005 projection for 2010	ODA/GNI Current projection for 2010
Austria	678	1 673	1 621	1 178	0.23%	0.51%	0.37%
Belgium	1 463	2 807	2 620	2 620	0.41%	0.70%	0.70%
Denmark	2 037	2 185	2 213	2 299	0.85%	0.80%	0.83%
Finland	680	1 475	1 426	1 112	0.37%	0.70%	0.55%
France	8 473	14 110	13 241	9 955	0.41%	0.61%	0.46%
Germany	7 534	15 509	14 408	11 300	0.28%	0.51%	0.40%
Greece	321	1 196	1 276	525	0.16%	0.51%	0.21%
Ireland	607	1 121	972	842	0.39%	0.60%	0.52%
Italy	2 462	9 262	8 892	3 426	0.15%	0.51%	0.20%
Luxembourg	236	328	313	313	0.79%	1.00%	1.00%
Netherlands	4 204	5 070	5 323	5 323	0.73%	0.80%	0.80%
Portugal	1 031	933	864	576	0.63%	0.51%	0.34%
Spain	2 437	6 925	6 552	5 652	0.24%	0.59%	0.51%
Sweden	2 722	4 025	3 803	3 915	0.78%	1.00%	1.03%
United Kingdom	7 905	14 600	13 670	12 975	0.36%	0.59%	0.56%
DAC EU members, total	**42 789**	**81 221**	**77 191**	**62 009**	**0.35%**	**0.59%**	**0.48%**
Australia	1 460	2 460	2 530	2 460	0.25%	0.36%	0.35%
Canada	2 599	3 648	3 648	3 542	0.27%	0.33%	0.33%
Japan	8 922	11 906	11 906	9 546	0.19%	0.22%	0.20%
New Zealand	212	289	266	324	0.23%	0.28%	0.34%
Norway	2 199	2 876	2 995	2 995	0.87%	1.00%	1.00%
Switzerland	1 545	1 728	1 593	1 820	0.40%	0.41%	0.47%
United States	19 705	24 000	24 705	24 705	0.17%	0.18%	0.20%
DAC members, total	**79 432**	**128 128**	**124 834**	**107 401**	**0.26%**	**0.36%**	**0.33%**

www.oecd.org/dac

	France		Germany		United Kingdom		Europe		World	
	In % of GDP	In bill. US$	In % of GDP	In bill. US$	In % of GDP	In bill. US$	In % of GDP	In bill. US$	In % of GDP	**In bill. US$**
0.10 %	0,843	18,8	1,488	43,3	8,612	204,4	2,109	321,3	1,523	**734,8**
0.05 %	0,612	13,7	1,070	31,2	6,352	150,8	1,528	232,8	1,097	**529,1**
0.01 %	**0,273**	**6,1**	**0,473**	**13,8**	**2,901**	**68,9**	**0,682**	**103,9**	**0,485**	**234,0**

Schulmeister 2008, in "Implementation of a FTT“ of September 2010, Schulmeister expects 15-21 bill. US$ for Germany

Kampagne „Steuer gegen Armut“