



SOCIAL AND ECONOMIC POLICY
WORKING PAPER

INCLUSIVE CRISES, EXCLUSIVE RECOVERIES, AND POLICIES TO PREVENT A DOUBLE WHAMMY FOR THE POOR

Ronald Mendoza

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Executive Summary

When it comes to aggregate economic shocks, the poor and the near-poor often face a double whammy. First, they are often among the most adversely affected by the shock, suffering from crisis effects that push them and their children (the next generation) deeper into poverty. Second, the poor and near-poor are also the least equipped to participate in and benefit from the subsequent recovery. In a grim twist of irony, the very same coping strategies that the poor turn to, in order to survive and weather the crisis—for instance taking on more debt, working more hours and jobs (and thus investing less time in other care activity), pulling children out of school, eating less (or less nutritious) food, and selling productive assets—are often also among the causes for their inability to recover quickly. This paper reviews the emerging evidence on the impact of the global economic crisis and food and fuel price volatility of 2008-2009, and it analyzes some of the key policy responses deployed by governments. It finds evidence suggesting that once again the poor risk facing a double whammy. In order to help ensure a more inclusive social and economic recovery, governments could follow a pro-poor countercyclical strategy that preserves (if not increases) social spending and investments as well as uses part of these resources to develop social protection systems. Failure to do so risks translating the effects of the crisis into permanent harm for children, women and poor families, in turn weakening their resilience to future crises.

Resumen Ejecutivo

Cuando se producen crisis económicas agregadas, quienes viven en situación de pobreza o casi pobreza sufren por partida doble. En primer lugar, porque suelen pagar las consecuencias más adversas de las crisis económicas, ya que los efectos de éstas les sumergen más profundamente en la pobreza a ellos y a sus hijos (la generación siguiente). Y en segundo lugar, porque los pobres y casi pobres son quienes poseen menos recursos para participar en el posterior proceso de recuperación y aprovechar sus beneficios. Resulta una trágica paradoja que las estrategias que emplean las personas en situación de pobreza para sobrevivir y capear las crisis —como endeudarse más, trabajar un número mayor de horas, buscar trabajo suplementario (lo que reduce el tiempo que pueden dedicar al cuidado de sus hijos), interrumpir los estudios escolares de sus hijos, comer menos, consumir alimentos menos nutritivos y vender sus bienes de producción— a menudo forman parte de las causas que impiden que se recuperen más rápidamente. En este documento se examinan las pruebas que van saliendo a la luz sobre las consecuencias de la crisis económica mundial y las volátiles condiciones de los precios de los alimentos y combustibles en 2008-2009, y se analizan algunas de las respuestas políticas más importantes de los gobiernos. El estudio descubre pruebas que sugieren que los pobres afrontan nuevamente una doble amenaza. A fin de ayudar a garantizar una recuperación social y económica de carácter más incluyente, los gobiernos deberían implementar estrategias anticíclicas en pro de los pobres que mantengan (o aumenten, de ser posible) los gastos y las inversiones sociales, además de emplear parte de esos recursos para desarrollar sistemas de protección social. En caso contrario, se corre el riesgo de que los efectos de la crisis tengan consecuencias perjudiciales permanentes en los niños, niñas, mujeres y familias pobres, lo que, a su vez, reducirá su capacidad de recuperación en caso de futuras crisis.

Résumé Analytique

Dans les situations où plusieurs chocs économiques se combinent, les pauvres et les « quasi-pauvres » subissent souvent un double coup dur. Premièrement, ils sont souvent parmi les plus affaiblis par le choc et souffrent des effets d'une crise qui les enfoncent, eux et leurs enfants (la prochaine génération), encore plus profondément dans la pauvreté. Deuxièmement, les pauvres et les « quasi-pauvres » sont aussi les moins bien équipés pour participer à la reprise qui suit et pour en profiter. Cruel paradoxe, les stratégies d'ajustement mêmes auxquelles les pauvres ont recours afin de survivre à la crise – par exemple s'endetter plus profondément, travailler de plus longues heures ou prendre plusieurs emplois (et par conséquent avoir moins de temps à consacrer à la vie familiale), retirer les enfants de l'école, manger moins ou manger des aliments moins nutritifs, vendre des biens productifs – sont aussi fréquemment parmi les causes de leur incapacité à se remettre d'aplomb rapidement. Le présent document examine les premières constatations qui ont pu être faites sur les effets de la crise économique mondiale et de la volatilité des prix des produits alimentaires et pétroliers de 2008-2009; il analyse quelques-unes des principales décisions politiques prises par certains pays pour faire face à la situation. Il relève certains faits qui semblent indiquer que les pauvres risquent encore une fois de subir un double coup dur. Pour assurer une reprise socialement et économiquement plus inclusive, les gouvernements pourraient appliquer une stratégie anticyclique en faveur des pauvres qui préserve, sinon augmente, le niveau actuel des dépenses sociales et des investissements tout en réservant une partie de ces ressources au développement des systèmes de protection sociale. Faute de quoi, la crise risque d'avoir des conséquences néfastes et permanentes sur la situation des enfants, des femmes et des familles les plus pauvres et d'affaiblir leur capacités à résister aux crises futures.

Introduction

It must be noted first that uncertainty, un-evenness and fragility characterize the first signs of global economic recovery in early 2010. Contracting by 2.2 percent in real terms in 2009, the global economy is expected to recover in 2010, with 2.7 percent growth and further in 2011 with 3.2 percent growth.¹ Recent analysis by the World Bank notes how global growth could still slow in the second half of 2010 when the growth effect of countries' countercyclical fiscal and monetary policy responses fully play out, and the current inventory cycle runs its course. Employment growth is widely expected to remain anemic, and high rates of unemployment are expected to plague many countries in the medium term. Developing countries' growth is expected to rebound from a meager 1.2 percent in 2009 to 5.2 percent in 2010 and 5.8 percent in 2011.² Much of this growth is actually concentrated in a few countries—if we exclude China and India, developing countries' growth is expected to be only 3.3 percent in 2010.

In addition, when the global economic crisis began to unfold in full force in 2009, high food and fuel prices received much less attention. Nevertheless, an analysis of the international and national data suggests that a food crisis persists in many countries. Recent calculations indicate that international food prices have indeed declined, but they remain well above their historical average level. When compared to the ten-year average, the prices of the major grains are above by some 22 percent (wheat) to 75 percent (rice).³ While transmission of international to national food prices is imperfect, a survey of national food prices also reveals that these have remained “sticky”. In some cases country specific challenges, including bad weather, domestic market imperfections and other factors, have contributed to continued high prices for food (Mendoza and Torres, 2010; World Bank 2010b).

For these reasons, a full two years since the first food price shocks in 2008, we expect that poor households will continue to face severe stress, as many of the factors that contributed to high and volatile food prices remain unaddressed. The very same public and private investments necessary for advancing food production and promoting food security have since been squeezed by the global economic slowdown and prevailing tight credit and resource environment.⁴ This spells more difficult days ahead for many poor households whose purchasing power continue to be squeezed, first by high food prices and later by a decline in income as a result of the global economic crisis.

Despite some signs of recovery, the crisis is far from over for millions of children, women and poor families. This paper reviews emerging evidence from the field on the impact of the crisis, as

¹ World Bank (2010a:3).

² World Bank (2010a:3).

³ These figures are based on calculations by Mendoza and Torres (2010) and draw on latest available data at the time of writing in February 2010.

⁴ Lack of investments in the agricultural sector is one of the factors that precipitated the food crisis (Conceição and Mendoza, 2009). Historical evidence from past episodes of economic crises suggests that agricultural investments typically contract as a result. Crises also tend to erode governments' (and at the micro-level, farmers') capabilities to undertake these investments. If this is also the case in the present global economic crisis, then many of the factors that precipitated the food crisis may persist and lead to a continued vulnerability to future food price shocks (FAO, 2009).

well as countries' policy responses to it. It points to the high risk of a possible double whammy for the poor:

- ***Inclusive crisis impact.*** There is a significant risk that the still unfolding crisis will be “anti-poor”—preliminary evidence in many cases suggest that the poorest and most vulnerable were least able to cope and most severely affected, and in ways implying lasting harm. Further, the full implications of the global slowdown on many developing countries—including volatile and unpredictable aid, sluggish export revenues and tight budgets—have yet to unfold in the medium term.
- ***Exclusive crisis recovery.*** The poorest segments of the global population are likely at their weakest and most vulnerable point, having undertaken a variety of coping strategies that are difficult to quickly reverse (e.g. drawing down on assets and possibly selling productive ones, taking on more debt, pulling children out of school). They also face significant declines in their purchasing power with little time to recover from the protracted period of crises in 2008-2009. In many parts of the developing world, there is a high risk that the rising tide of economic recovery will “not lift all boats.”

Developing country governments working with development agencies and other partners, will need to take decisive steps in 2010 and immediately succeeding years in order to stage a strong crisis recovery that preserves both their human and economic development prospects. Without concerted policy action, millions of children, women and poor families are unlikely to participate in the global economic recovery. A pro-poor countercyclical fiscal policy strategy will be critical, and it could consist of: preserving, if not increasing, social spending and investments, as well as building on and adequately financing social protection systems not just for poverty reduction but also to boost resilience against future crises.

In what follows, section 1 of the paper reviews recent evidence on crisis impact, drawing on recent rapid surveys and assessments. Section 2 then examines some of the policy issues surrounding the recovery, including the child, gender and poverty dimensions of budgetary and fiscal policy responses. Section 3 concludes by outlining possible policy priorities in order for countries to stage a “recovery with a human face.”

1. Emerging Evidence that the Crisis is very Inclusive for the Poor

Most expect that the presently unfolding global economic slowdown will exacerbate poverty, hunger and malnutrition in many parts of the developing world. Even as international food prices have relaxed, these have nevertheless remained higher than their long run trend. In many developing countries, economic contraction has occurred on top of persistently high (and in some cases rising) food prices.⁵ The UN's Food and Agriculture Organization (FAO) recently reported

⁵ Zaman (2010a:2) examines the food price increase for countries with data from January to October 2009 and finds that countries like Sudan, Tanzania, Nigeria and Uganda are among the countries that have seen key food crops increase in prices by well over 20 percent—and in some cases reaching up to 50 percent (e.g. sorghum in Nigeria).

that over 1 billion people in the world will be hungry and undernourished in 2009—about 100 million more over the previous year (FAO, 2009).⁶

The World Bank's latest estimates predict that as a result of the crisis the number of people living in extreme poverty will increase by as much as 50 million more people in 2009, and another 64 million by the end of 2010.⁷ Recent World Bank research as well as our own analysis in UNICEF suggests that there is a high risk that the crisis could undermine recent progress in the reduction of infant mortality (Friedman and Schady, 2009; Mendoza and Rees, 2009). If there is inadequate policy action, tens of thousands of children in some of the poorest countries in the world could die, paying the ultimate price as a result of this crisis.⁸ Over-all, the crisis raises the risk that recent gains in human development—notably improvements in the wellbeing of children—could be reversed.

These broader estimates of crisis impact are now beginning to be complemented by preliminary evidence emerging from rapid surveys and other assessments that seek to monitor various aspects of human development during the crisis. Notably, information on coping strategies are briefly reviewed here, as these could be precursors of long term harmful consequences for human development manifesting more clearly only over time (Dercon, 2002).

It will take more formal empirical analyses in later years to understand the full consequences of the food and fuel price volatility and global economic slowdown of 2008-2009. Most of the surveys and data gathering implemented during the crisis are not nationally representative, nor conclusive. The impact is also varied, and while some point to severe effects, others suggest much milder crisis impact.⁹ However a number of studies do begin to raise important warning signals of the compounded stress that households face given already high poverty and inequality in many parts of the developing world now facing compounded stress due to food price volatility and the global slowdown.

1.1. Unemployment notably among the poor, migrants and youth

Essentially, the global economic crisis compounds the erosion of poor families' purchasing power due to the food price shocks in 2008. The subsequent collapse in commodity prices as well as weaker global aggregate demand has affected many developing countries' export sectors. In Sri Lanka, for example, its tea exports have taken a hit due to the sharp slowdown in demand from its major export market, Russia. Over 60 percent of tea in Sri Lanka is produced by small holder farmers, suggesting that a large impact will be on the countries' poor.¹⁰ In Zambia, the

⁶ Another estimate suggests that there could be an increase in the global undernourished population by up to 41 million due to the global economic slowdown in 2009. This is in addition to the increase by 63 million in undernourished due to the food price crisis the year before (Zaman, 2010b:17).

⁷ World Bank (2010:41).

⁸ Mendoza and Rees (2009).

⁹ McCulloch and Grover (2010), for example, examine three waves of Indonesia's Labor Force Surveys: February 2008, August 2008 and February 2009. They find no evidence that there was an increase in female labor force participation (unlike in the Asian crisis when female headed households turned to the labor market to be able to augment incomes). They also find little evidence of significant numbers of school dropouts. Nevertheless, they did find some evidence that unemployment did rise for many young people.

¹⁰ IRIN Humanitarian News and Analysis, "Sri Lanka: Global crisis likely to hit poor hard," December 8, 2009.

country's copper mining industry shed an estimated 6,000 employees since November 2008. The Mine Workers Union of Zambia estimated that 10,000 out of a total of 23,000 registered miners would be retrenched by end March 2009.¹¹

Focus groups composed of cash crop farmers in rural Ghana describe being in a situation whereby they are squeezed by lower prices of some cash crops, while farm input costs remain high. In most of these severely affected sectors, progress in job creation and poverty reduction is now in danger of being reversed, as these very same jobs are now retrenched.

Reports of job losses among migrant export workers are also increasing. For instance, in the peri-urban community of Gandasari in Jakarta an estimated 10 percent of permanent workers and 40 percent of contract workers had already lost their jobs. Unofficial reports suggest that over 200,000 Indonesian nationals previously working in Malaysia returned home in 2008 as a result of the recession, with most of them women and from the country's rural areas.¹² In China, well over 20 million domestic migrant workers are reported to have been retrenched in early 2009, while in Ghana, the Ministry of Finance estimated that remittances were down by over \$50 million in January 2009 compared to its level the year before and attributed this to job losses among migrants.¹³

Furthermore, a quick assessment of Vietnam's migrant workers' situation based on focus group discussions and interviews suggests that labor migrants in the informal sector have not been spared by the crisis and that younger and more recent migrants are typically more affected by the recent economic retrenchment in major labor importing countries.¹⁴ Similarly, focus group discussions with female garment workers in Cambodia in early 2009 revealed that they were able to send home about US\$30 to 40 each month before mid-2008. Since then, they reported that they had only enough to cover their own living expenses, with very little if any left for sending to relatives. The garments sector in Cambodia shed about 60,000 workers, with about 16 percent of garment factories closing. Of those workers who kept their jobs, many reported fewer hours worked and diminished overtime pay.¹⁵ All of these developments will clearly have a severe impact on migrants' home communities, which not only suffer from declining remittances but also need to absorb returning migrants in the local economy.¹⁶

Many of these workers that lost jobs in the export sectors are young people, notably young women. It is important to mention that youth unemployment was already a significant challenge even before the crisis. Between 1997 and 2007, during a time when global growth was robust, the number of unemployed youth actually increased by 13.6 percent, from 63 million to 71

¹¹ Hossain (2009:31).

¹² IRIN Humanitarian News and Analysis, "Indonesia: Tough times for returning labor migrants," Mar 14, 2009.

¹³ IRIN Humanitarian News and Analysis, "Ghana: People have a message for G20," April 2, 2009.

¹⁴ Longer term migrants tend to have more savings and options for consumption smoothing, while more recent migrants do not necessarily have these, and they also tend to shoulder large debt burdens associated with being a new migrant. This study also revealed that the children of migrants have begun to suffer from the aftershocks, through the delay in payments of school fees, school dropouts and lesser health care visits. For further details on the study and the data collection methodology, see UNICEF, Vietnam Ministry of Culture, Sports and Tourism and Vietnam Institute of Sociology (2009).

¹⁵ ILO (2009b:1).

¹⁶ Hossain (2009:9).

million (ILO, 2008:2).¹⁷ In many regions across the developing world, youth unemployment (and notably female youth unemployment in the case of Latin America, Middle East and North Africa) was already severe even before the 2008-2009 crises—in some regions like South Asia it became even worse during the decade prior to 2008-2009 (table 1).

Recent analysis by the International Labour Organization (ILO) suggests that youth unemployment is higher than for adults, for various reasons including lack of experience, a higher degree of job changes, greater likelihood of entering and exiting the workforce. Historically, young people are also among the hardest hit in terms of job losses (and recovery) following from a financial or economic crisis (Verick, 2009). During the present crisis, young people are also among the first to be retrenched in many of the industries hit hard by the global slowdown. A protracted period of sluggish employment creation will likely exacerbate this already difficult situation of youth unemployment in many parts of the developing world. Regions with evidence of inequities across men and women may also see these inequities become exacerbated by the slowdown, and thus further harden pre-existing forms of exclusion in the labor market.

Table 1. Youth Unemployment Rates, 1997, 2006 and 2007

	Total (%)			Male (%)			Female (%)		
	1997	2006	2007	1997	2006	2007	1997	2006	2007
World	10.9	12.2	11.9	10.7	12.0	11.6	11.2	12.5	12.2
Developed Economies and European Union	14.8	13.1	12.4	14.5	13.4	12.7	15.0	12.7	12.1
Central and SE Europe (Non-EU) and CIS	21.2	18.5	18.0	20.4	17.9	17.2	22.2	19.3	19.2
South Asia	6.7	11.1	10.8	6.6	11.1	10.7	7.0	11.2	10.9
South-East Asia and the Pacific	9.8	17.1	15.8	9.5	16.2	15.0	10.2	18.2	17.0
East Asia	7.3	6.8	6.7	8.5	7.9	7.8	6.1	5.7	5.6
Latin America and the Caribbean	14.0	15.0	14.5	11.5	11.9	11.5	18.3	19.6	19.0
Middle East	23.6	20.4	20.4	20.7	17.1	17.1	32.5	28.7	28.7
North Africa	25.3	23.7	23.8	23.0	20.2	20.1	30.7	30.7	30.9
Sub-Saharan Africa	12.0	11.6	11.5	11.6	11.2	11.1	12.6	12.1	12.1

Source: ILO (2008:53).

1.2. Crisis impact on children, women and poor households

In some countries' export and services sectors, women are among the most vulnerable as they are primarily the ones who lost jobs. To cite a few examples, the share of women in the workforce are 70-85 percent in the cut-flower industries in Kenya and Uganda, 75 percent in the textiles sector in Kenya and Lesotho, and 90 percent in the garments industry in Cambodia. These are among the sectors that are expected to or have already laid off massive numbers of workers and/or cut down in work hours due to slumping global demand for exports.¹⁸ In Ghana, for cash

¹⁷ Unless otherwise specified, the youth data described in this note refer to persons aged 15 to 24 years.

¹⁸ World Bank (2009b).

crops like shea nuts, the impact is disproportionately going to fall on women workers for whom this is an important additional income source during the lean season.¹⁹

Emerging evidence from field reports and surveys by think tanks, the UN and other development agencies confirm the rising risk faced by children, women and poor families in a number of developing countries. Since late 2008 and into 2009, more severe coping strategies are already beginning to be observed, such as eating less (and less nutritious) meals, children dropping out of school and turning to begging and illicit activities, and finally, evidence of starvation and death in some parts of the developing world. Other severe consequences for children and women also suggest their high vulnerability to exploitation and abuse.²⁰ To help illustrate, it is possible to draw on the results of very recent surveys and qualitative data gathering initiatives implemented during various periods in 2009.

Rapid and (almost) real-time monitoring initiatives conducted in East Asia and the Pacific by UNICEF found evidence that households are struggling to cope. The Indonesian government implemented a food security survey in June-July 2009 in four provinces (East Java, Nusa Tenggara Timur or NTT, Central Sulawesi and West Kalimantan), and it found that 14 percent of all surveyed households were food insecure, 30 percent were vulnerable and 56 percent were food secure. There were more food insecure households in rural (20 percent) compared to urban areas (8 percent). In addition, 21 percent of households with at least one school-age child reported school absenteeism, and this was higher in rural (26 percent) compared to urban areas (16 percent). Furthermore, 56 percent of all households reported experiencing difficulties in the last three months, owing to the lack of cash, high food prices, health expenditures, agriculture/fishing related difficulties, debt payment and the increased cost for social events (Patel and Thapa, 2010:5).

Similar monitoring initiatives in the Pacific Islands revealed households under stress. For instance, survey results from Tonga conducted in December 2009 showed that up to 60 percent of those interviewed reported experiencing more difficulty in paying school-related expenses compared to the last year. Up to 77 percent of households surveyed also reported having more difficulty meeting daily expenses compared to last year. In order to cope with difficult times, up to 75 percent of the households surveyed turned to friends and relatives for help; and about a quarter of them drew down on assets such as by using up savings or selling household assets in order to meet expenses (Patel and Thapa, 2010:9).

Furthermore, figures 1 and 2 illustrate results from a survey conducted by UNICEF in collaboration with the World Bank and TEPAV, a Turkish think tank, in May and June 2009. The survey covered over 2000 households spread over several large cities in Turkey; and it assessed the impact of the economic slowdown on income and consumption of households and tried to shed further light on how families cope with such changes. Coping strategies harmful to children and family members such as reduced health-seeking behavior and substituting to cheaper but possibly less nutritious food have been observed in a large number of households (see figure 1). Poorer families are also over twice as likely to decrease food consumption, reduce

¹⁹ See Brinkman and others (2009:15 and 25). Adverse implications on countries' export sectors have also been found in a 10-country case study by the Overseas Development Institute (see Te Velde, 2009).

²⁰ See among others <http://www.voicesofthevulnerable.net>; Hossain (2009), Patel and Thapa (2010), Reyes and others (2010) and SMERU Research Institute (2009).

health-seeking behavior and cut back on education investments (see figure 2), suggesting a disproportionate impact on the poor.

Furthermore, based on more qualitative interviews by WIEGO (Women in Informal Employment: Globalizing and Organizing) of 160 informal workers across 11 cities in Africa, Asia and Latin America²¹ conducted between January and June 2009, the results indicate that even the informal sector has been deeply affected by the crisis. Over 70 percent of those interviewed reported that their weekly income declined between January and June 2009 (see figure 3), suggesting that economic activity in the informal economy is very sensitive to changes in the economy.

The interviews also revealed that informal workers appeared to face more competition—most street vendors, home based workers and waste pickers answered that they faced more competition from new workers, most of whom were women (see figure 4). Many of these workers tried to cope with falling prices of their products (see table 2), increased competition from new workers in the informal economy, and other pressure factors by working longer hours and days (see figures 5 and 6). This suggests that the crisis may have exacerbated the time poverty of the poor, and notably women.²²

Table 2. Price Changes of Different Waste Products Reported by Waste Pickers Interviewed in January-June 2009, Selected Cities

Material	Santiago, Chile	Bogotá, Colombia	Pune, India(Infosys)	Pune, India(University)
Cardboard	-58%	-20%	-7%	-16%
Office paper	-50%	-27%	-1%	-12%
Scrap paper	-60%	-50%	-2%	-4%
Newspaper	-	-50%	-4%	0%
Glass	-	-17%	0%	0%
Plastic	-39%	-29%	-	-
Ferrous metal	-70%	-57%	-17%	+7%
Aluminum	-59%	-37%	-13%	+9%
Brass	-	-27%	-	-
Bronze	-50%	-	-	-
Copper	-15%	-85%	-	-
Batteries	-	-43%	-	-
Milk bags - plastic	-	-	-20%	-12%

Source: Adapted from Horn (2009:11).

²¹ Chile (Santiago), Colombia (Bogota), India (Pune), Indonesia (Malang), Kenya (Nakuru), Malawi (Blantyre), Pakistan (Kasur), Peru (Lima), South Africa (Durban) and Thailand (Hat Yai and Bangkok).

²² The figures are not sex disaggregated owing to the very small sample size. Nevertheless, based on the qualitative interviews, women and girls appeared to represent a disproportionately large group among those forced into the informal sector.

In addition, a survey of 450 households spread across 15 villages in Malawi conducted in late October to early November 2009 produced some evidence to suggest that even a low income country could be hit, particularly due to the ripple effects such as the reduction of remittance flows from migrant workers located in other countries undergoing an economic slowdown. For instance, in Chitipa, Mangochi and Phalombe, roughly half of the surveyed households reported that remittances declined when comparing 2009 to the year before. Nevertheless, some also noted an increase, which may in turn have helped them cope better (see figure 7).²³

Of those households that experienced a decline in remittances, some reported hunger, reduced fertilizer use as well as a variety of other ways to cope (see figure 8). Furthermore, in some villages, female headed households appeared to have been hit more by a decline in income (see figure 9). And based on perceptions of the time it would take to recover from the income shock, most responded that it would take anywhere from 6 months to over a year to be able to recover (see figure 10). This seems to confirm that it will take time and much more effort for poor households to fully recover from the crisis, even as the rest of the economy may begin to show signs of growth and recovery.

Similarly, Reyes and others (2010) analyzed the impact of the global economic crisis on poor regions in the Philippines by drawing on the results of a community based monitoring initiative covering 10 selected sentinel sites—4 in rural areas, 5 in urban areas outside the national capital region (NCR) and 1 site in urban NCR. Selected barangays (the smallest local government unit) covered in their study consisted of about 3,499 households, and the data collection occurred during 6 months from November 2008 to April 2009. They found evidence that households were struggling to cope with the crisis (covering the food price crisis) through various means (ibid: 17-18; see also figure 11):

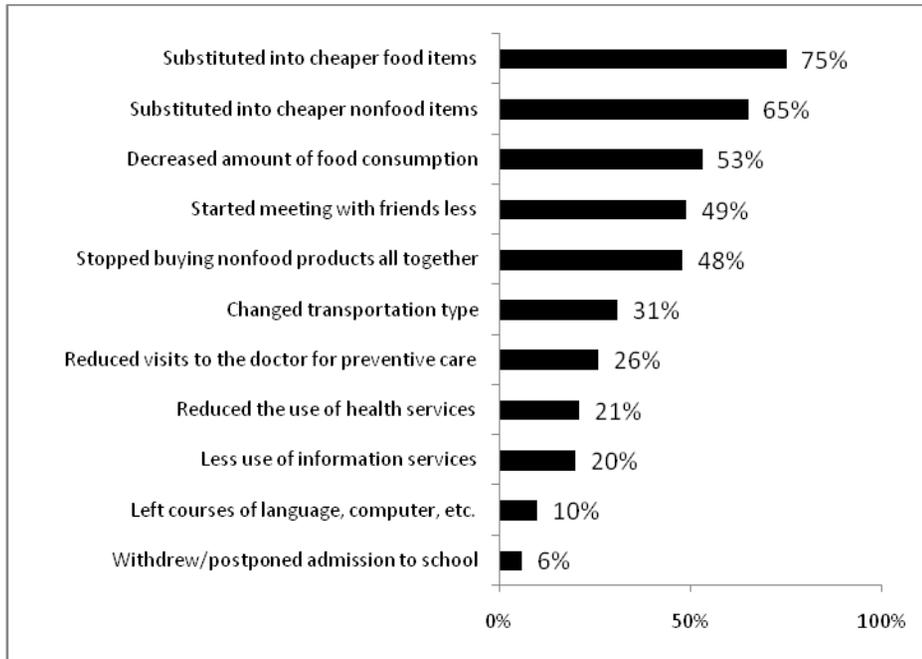
- 57 percent modified their expenses related to health;
- 25 percent modified some of their expenses related to education;
- 34 percent switched to cheaper and generic drugs;
- 5 percent did not buy medicines although they are necessary;
- 1.4 percent of students who were studying were withdrawn from school during the period November 2008-April 2009 and in the coming school year;
- 40 percent borrowed money from various sources;
- 13 percent used their existing savings to tide them over;
- 7 percent pawned or sold their assets;
- 6 percent of households surveyed reported that at least one member of their household looked for work in addition to their existing job;
- 5 percent of the households reported that at least one of their members actually did additional work during the period.

²³ This refers to external remittances.

Figure 1

TURKEY

Household Coping Mechanisms During the Economic Crisis (% Share of Reporting Households)

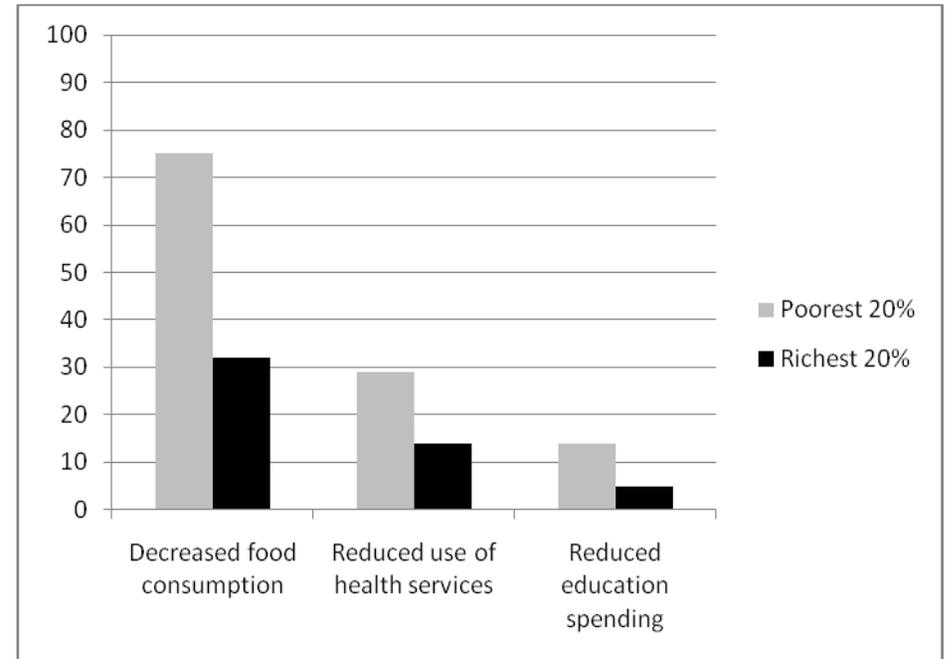


Source: TEPAV, UNICEF and World Bank (2009:1).

Figure 2

TURKEY

Share of Households Turning to Certain Severe Coping Strategies, By Top and Bottom 20% Income Grouping (% Share of Reporting Households)

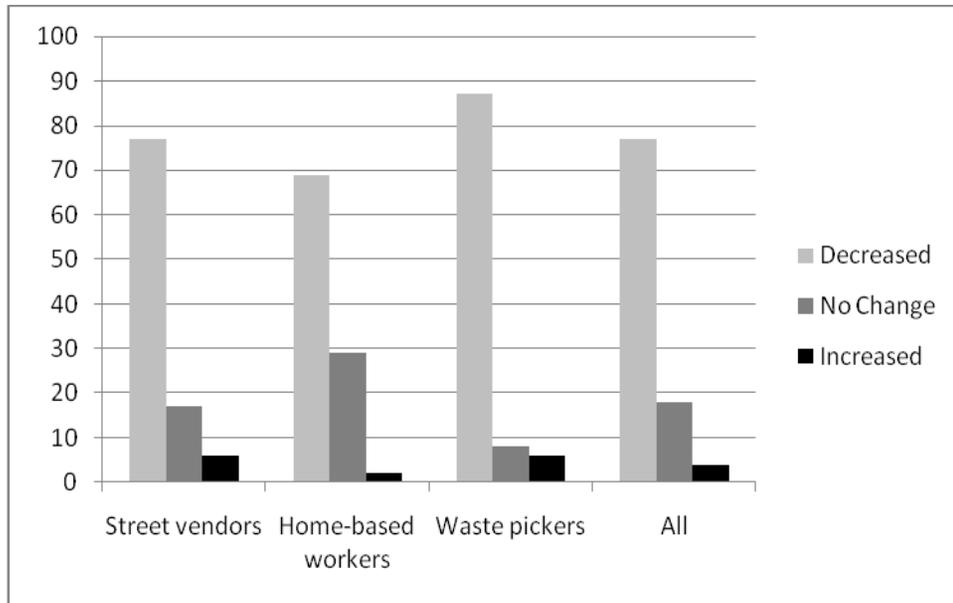


Source: TEPAV, UNICEF and World Bank (2009:1).

Figure 3

INFORMAL WORKERS IN SELECTED CITIES IN ASIA AFRICA AND LATIN AMERICA

Reported Changes in Weekly Profits (% Share of Reporting Workers)

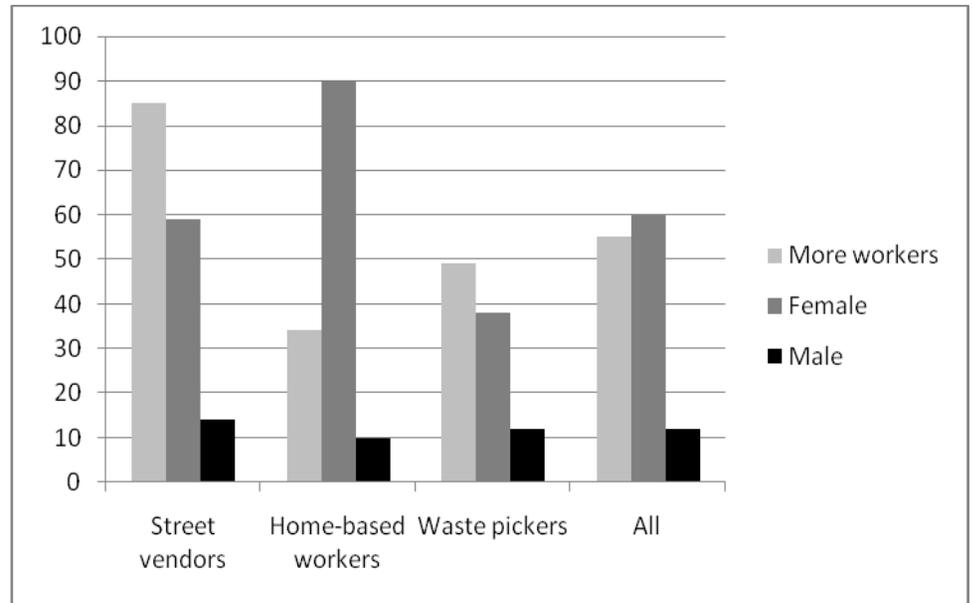


Source: Horn (2009:14).

Figure 4

INFORMAL WORKERS IN SELECTED CITIES IN ASIA AFRICA AND LATIN AMERICA

Reported Increase in Workers (by Gender) (% Share of Reporting Workers)

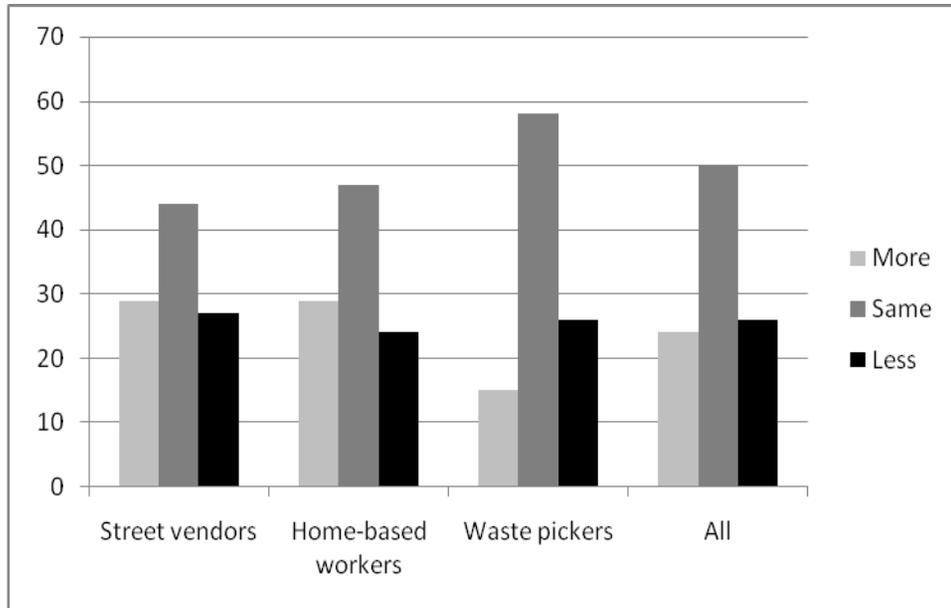


Source: Horn (2009:12).

Figure 5

**INFORMAL WORKERS IN SELECTED CITIES IN ASIA AFRICA
AND LATIN AMERICA**

**Reported Increase in Hours Worked per Day (% Share of Reporting
Workers)**

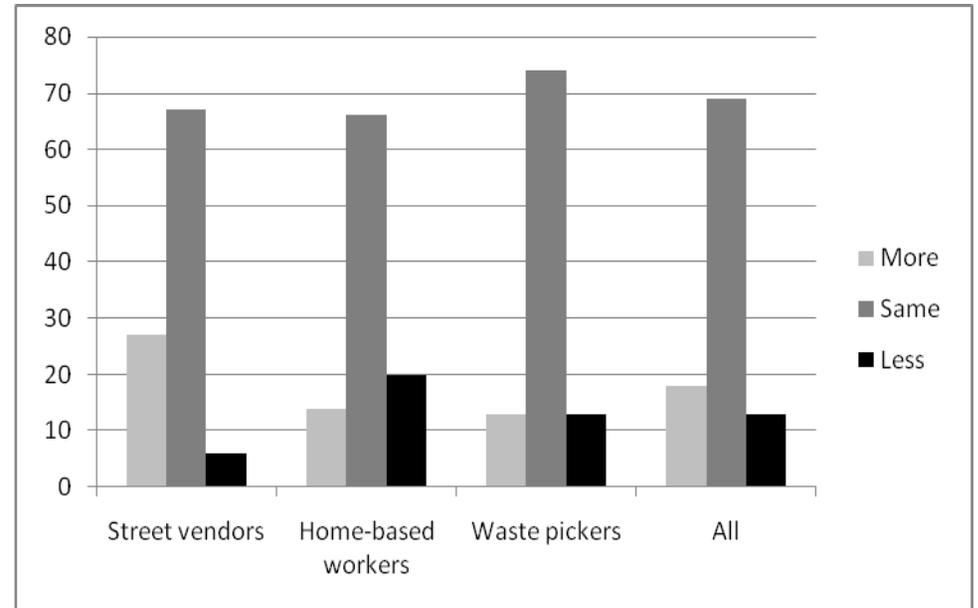


Source: Horn (2009:15).

Figure 6

**INFORMAL WORKERS IN SELECTED CITIES IN ASIA AFRICA
AND LATIN AMERICA**

**Reported Increase in Days Worked per Week (% Share of Reporting
Workers)**

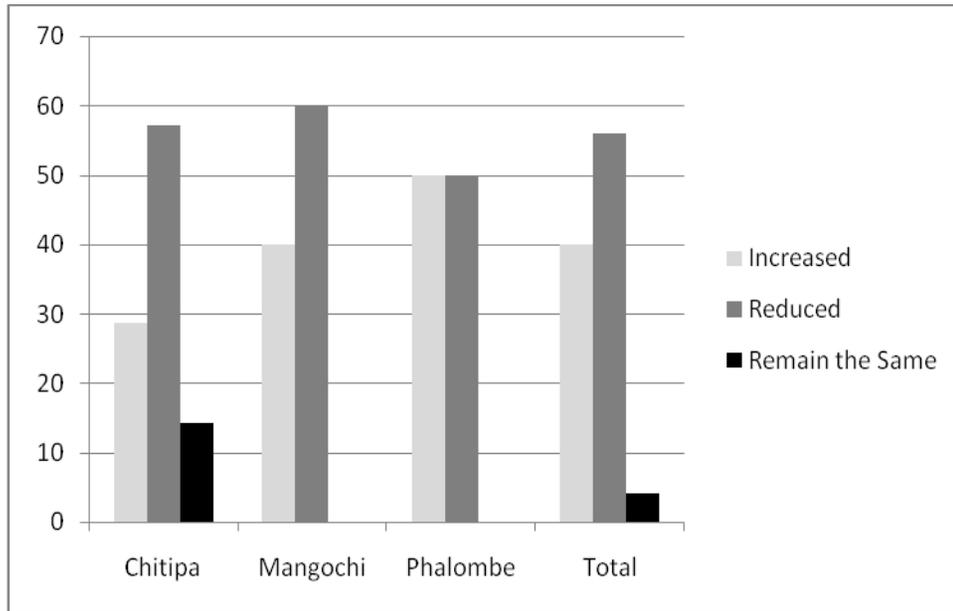


Source: Horn (2009:15).

Figure 7

MALAWI

Households' Perceived Changes in Remittances between 2009 and 2008 (% Share of Reporting Households)

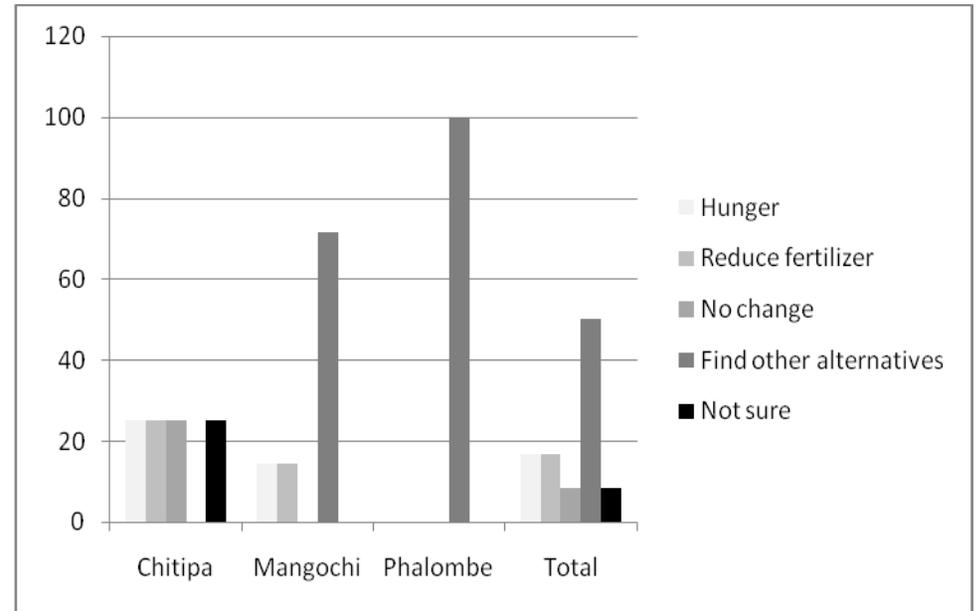


Source: Lumbe and Msiska (2010:28).

Figure 8

MALAWI

Households' Response to Decreased Remittances (% Share of Reporting Households)

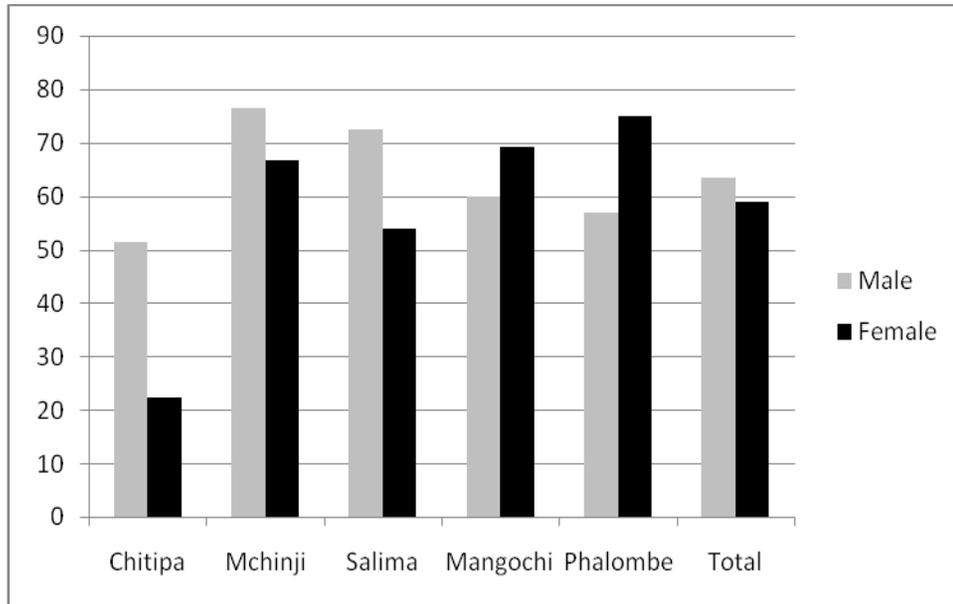


Source: Lumbe and Msiska (2010:29).

Figure 9

MALAWI

Households Reporting a Decrease in Income between 2008 and 2009 by Gender of Household Head (% Share of Reporting Individuals)

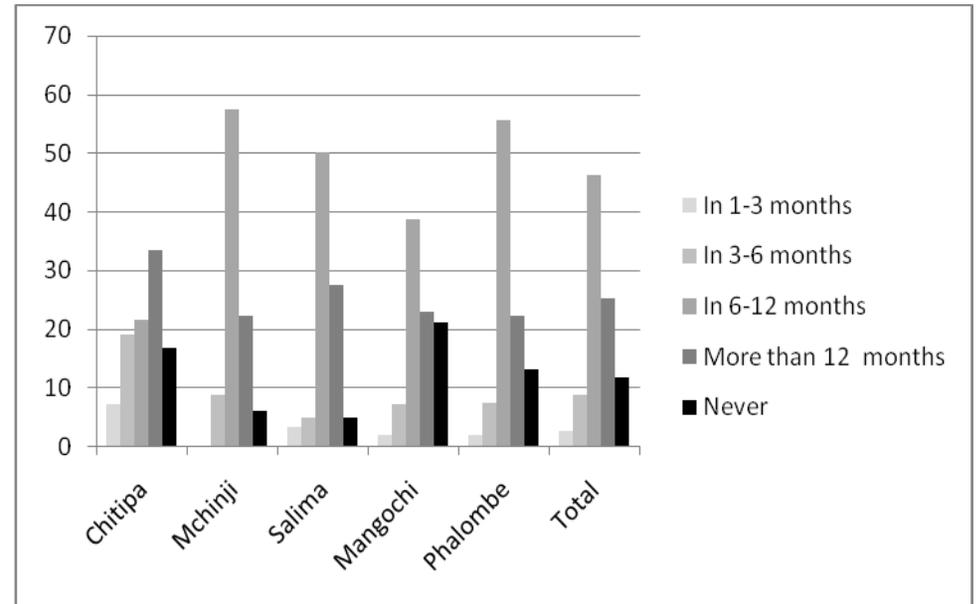


Source: Lumbe and Msiska (2010:24).

Figure 10

MALAWI

Household Perception of the Time to Recover from Income Decline (% Share of Reporting Households)

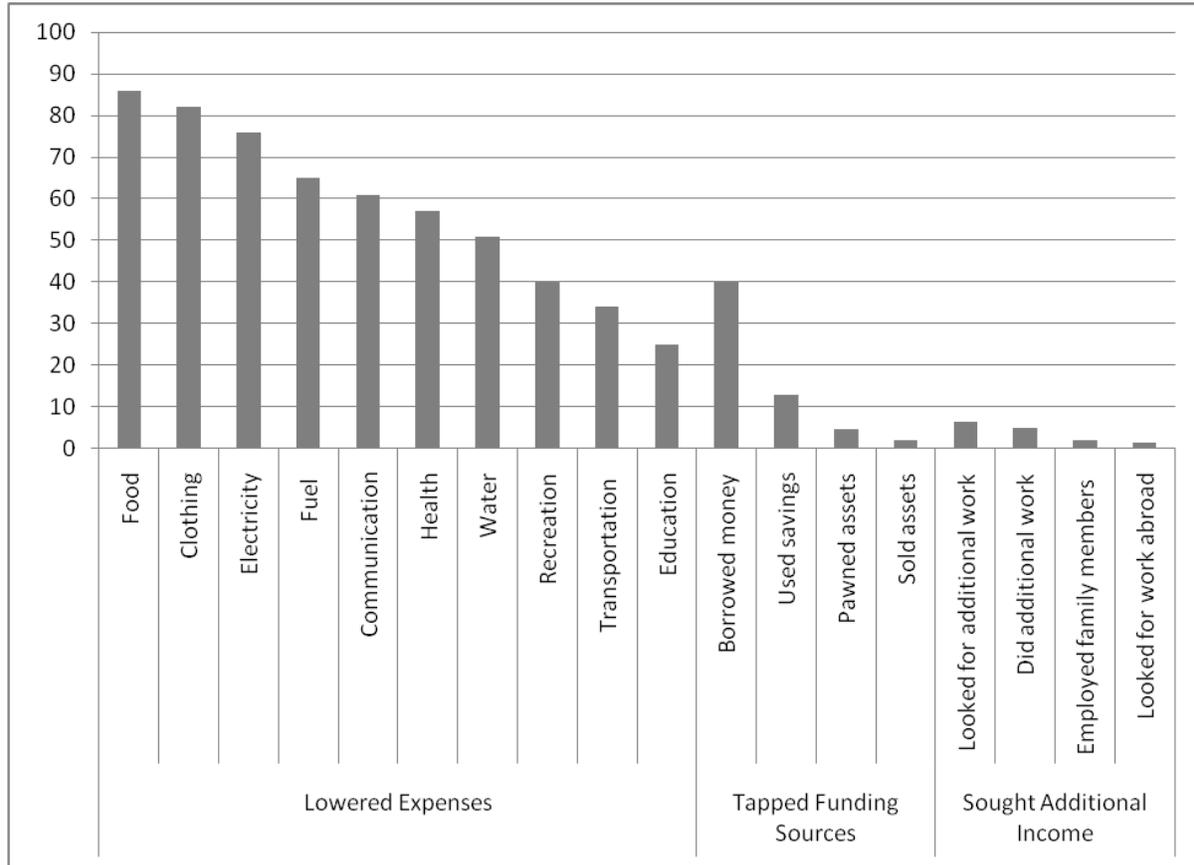


Source: Lumbe and Msiska (2010:24).

Figure 11

PHILIPPINES

Households Struggling to Cope by Lowering Expenses, Tapping Funding and Looking for Additional Income (% Share of Reporting Households)



Source: Reyes and others (2010:18).

As noted earlier, the preceding illustrations should not be attributed solely to the recent food price volatility and the global economic slowdown, nor should these figures be considered as representative and conclusive. Due to the nature of the rapid survey techniques used, most do not yet build on extensive baselines, and they are sensitive to perceptions, the time of the year the surveys and interviews are conducted and other factors. These studies also do not yet formally account for exacerbating (e.g. existing poverty and domestic factors) and mitigating conditions (e.g. social protection interventions). Nevertheless, despite all these caveats, these findings do serve as warning indicators of rising stress and the difficulty of a sizeable number of households trying to cope with the compounded effects of initial difficult conditions, food price volatility and the economic slowdown. Policymakers should see these as critical alert signals on the risks of emerging social consequences of the crisis

2. Risks that the Recovery will Exclude the Poor

For a variety of reasons, the impact of crises is very “inclusive” of the poor. Essentially, an economic slowdown hits both the public sector budget due to declining revenues; and the household budget due to rising unemployment, lower entrepreneurial opportunities and higher prices of basic commodities. Past episodes of financial and economic turbulence have often pushed many families into poverty, and given rise to children dropping out of school, increased child labour, higher malnutrition, and in the direst cases, a rise in child mortality. All these are exacerbated by stagnant or even significantly reduced social spending and investments.

One of the main challenges is that during aggregate shocks and periods of economic contraction or stagnation, the capacity of government to carry out its commitments (or undertake new ones) to invest in programs and projects that benefit children, women and the poor is often curtailed. Also often curtailed is its capability to undertake countercyclical fiscal policy and provide adequate social protection to the most vulnerable. As a result, most studies find that fiscal policy is procyclical in developing countries.²⁴ During a typical crisis episode, spending on the social sectors are often cut at precisely the time when these resources are needed the most. It is not uncommon that social spending suffers the largest cuts, and that part of social spending that has the greatest benefit for the poor is most retrenched.²⁵

On the other hand, growth spurts or economic recoveries tend to be less inclusive. While definitive data may not be available for years to come, we do know from past crises that families often have to sell off what little productive assets they might have, reduce health-seeking behaviour, pull children out of school, take on more debt, and in dire cases, eat less or less nutritious food in order to cope with the income shock. All these coping strategies hinder the ability of poor families to quickly recover.

2.1. Severe coping strategies weaken children’s and households’ resilience

Households facing income shocks often try to cope in a number of ways, and some of these tend to weaken their resilience. For instance, poor households could borrow money, potentially resulting in severe debt problems. A study of household debt holding after the 1998 floods in Bangladesh found evidence that more than 60 percent of poor and flood-exposed households borrowed money after the flood. Subsequently, their debt rose by an average of 1.5 months of typical consumption. Furthermore, 15 months after the flood, household debt still averaged 146 percent of one month’s average consumption for two-thirds of flood-exposed households in the bottom 40 percent of the expenditure distribution. In addition, coping through the sale of assets could also deplete the households’ already scant resources and further reduce their earning capacity and productivity (e.g. the sale of a farm animal used in agricultural production could lower their output). This is particularly true if shocks are recurrent and of protracted duration, providing little opportunity to rebuild asset levels which may have taken years to accumulate.

²⁴ Ilzetski and Vegh (2008).

²⁵ Deles and others (2009).

Turning to even more severe coping strategies, rationing food and eating less (or less nutritious) food by household members (most notably, pregnant women and young children) could have serious consequences on their (and infants') health and nutrition, with potentially long-lived effects. Further evidence from a study of household expenditure responses to wage shocks in Mexico during the 1990s suggests that households tend to react to temporary wage shocks by lowering spending on items that contribute to human capital investment (e.g. education and health), thus contributing to their vulnerability in the future. Many of these coping strategies ultimately result in adverse long-term consequences (most notably for children), and weaker resilience to present and future aggregate shocks and crises. Suffice to say that even as businesses and economic growth may rebound strongly, poor families, women and children may not necessarily do so.²⁶

As such, while “green shoots” may emerge in some countries and as global trade and economic growth may rebound, the most vulnerable populations are unlikely to participate in this recovery, reinforcing poverty traps for people who otherwise might have had the chance to escape poverty. The risk of jobless growth is also high: the most recent figures (in late 2009) reported by the UN's International Labour Organization indicate that unemployment is still on the rise in many parts of the world, developing and industrial alike.²⁷

Even as some have begun to celebrate the end to the crisis and the beginnings of economic recovery during the time of writing this paper, the risks for children, women and poor families remain high. Poor families' remaining buffers and capability to cope are probably going to be at their weakest, and many aftershocks from the crisis such as diminished and unpredictable aid (for aid recipients), sluggish export revenues, tighter public sector budgets and increased debt levels, appear imminent. Other resource flows such as remittances contracted less dramatically than initially expected, but still decreased by a significant amount: over 6 percent contraction in 2009. Only a very modest recovery in remittances is expected in 2010 with growth by about 1.4 percent. Some experts predict that remittances are unlikely to reach the 2008 level even by 2011, due to the sluggish economic recovery in many migrant receiving countries.²⁸ For families that have come to rely on this as a lifeline, the contraction in consumption and human capital investments may be inevitable.

For a number of developing countries, crisis vulnerability is exacerbated by structural issues, ranging from an overdependence on natural resources, gaping export imbalances, underdeveloped capital markets, inefficiencies in the production and use of energy and chronic debt sustainability problems.²⁹ And even where there are signs of recovery, prompted perhaps by stimulus packages, the benefit incidence of these may not necessarily reach poor households.

²⁶ See Del Ninno and Dorosh (2003) and Attanasio and Szekely (2004).

²⁷ ILO (2009a).

²⁸ See Ratha and others (2009). In addition, Barajas and others (2010:9) estimate that the impact on GDP of the expected decline in remittances for remittance-dependent African countries is a decline of about 2 percent for 2009. Nevertheless, these authors—similar to Jha and others' (2009) analysis of remittances to Asia—predict a recovery in remittance flows in 2010.

²⁹ Mirow (2009) and World Bank (2009b).

2.2. Marginalization of children, women and poor households in crisis responses

In the scramble for scarce resources to build back in the post-crisis era, those with the least voice and influence could once again be marginalized. As in past crisis episodes, at present there is a high risk of cuts in many developing countries' social sector spending and investments. For instance, a recent survey of education budgets in selected developing countries undertaken by UNESCO suggests that despite efforts by most countries to protect their education investments, some of the poorest countries are already expecting either budget cuts or freezes in planned expansion in education investments.³⁰ Furthermore, recent analysis by the IMF and the World Bank flagged the rising risk of budget challenges in the medium term—including debt sustainability issues for low income countries that only recently achieved major inroads in improving their debt situation. Revenues and grants in low income countries are expected to decline by an average of about 2 percent between 2007 and 2009, with fiscal deficits widening by an average of over 8 percent for commodity exporters and 2 percent for the rest.³¹ All this suggests that the ripple effects of the 2009 global economic slowdown will likely spill over into 2010 and beyond.

Stronger social investments will be a critical component of the over-all strategy to channel resources to poor households that are most vulnerable to the adverse effects of crises. Channelling resources to poor households could change their incentives to undertake some of the harmful coping strategies that are well documented in the crisis literature. With support, children are less likely to drop out of school, and poor families are more likely to be able to maintain investments in children's healthcare, nutrition and wellbeing.

In addition to the ethical motivation to protect those most vulnerable—children and poor families who had nothing to do with the causes of the present crisis—a macroeconomic rationale is also cogent. Poor people are typically more constrained by lack of access to credit, so if they receive resource transfers, this is more likely to be used for immediate consumption and investment, facilitating a stronger economic stimulus effect.³² Emerging evidence on some cash transfers programs, for example, suggest widespread benefits to a regional economy with significant multiplier effects.³³ Boosting social protection systems could also enhance the over-all stimulus effort, since people may be more likely to spend and invest if some of their risks are somehow addressed through more robust safety nets.

Nevertheless, stimulus plans that do not explicitly focus on the poor, de facto, presume that the recovery will somehow trickle down. A recent preliminary review of stimulus packages by the United Nations Development Programme revealed that only a fraction of these plans—about 25 percent on average—are actually focused at providing social protection.³⁴ Further, most countries' stimulus packages are focused on items such as public investment in infrastructure and

³⁰ UNESCO (2009).

³¹ IMF (2009) and World Bank (2009b:11).

³² World Bank (2009c).

³³ See among others Davies and Davey (2008) and Miller (2009).

³⁴ Zhang and others (2009).

enterprise and personal tax relief, all of which have benefit incidence favouring less poor and middle class segments of society.

The lack of gender responsive budgets and policies may also raise risks that the recovery will leave out women. Recent studies of the fiscal stimulus packages of Cambodia, China, Indonesia, Lao PDR and Vietnam by UNIFEM and UNICEF's East Asia and Pacific Regional Office raised some concern that large components of fiscal stimulus packages also tend to favour men over women. In many countries, men tend to be better integrated into the formal economy either as entrepreneurs or labourers, so fiscal stimulus focused on infrastructure and enterprise support will benefit men more than women.³⁵ Nevertheless, and as elaborated earlier, women tend to be much more severely affected by the crisis. Many young women lost jobs in various export sectors that are now struggling (e.g. textiles, garments, electronics, etc). In addition, mothers with high time poverty to begin with will now face even greater stress to try to cope with the crisis by taking additional jobs (and/or working longer hours), adjusting their households' expenditures, and undertaking other coping strategies. Budgets and other policies also need to be gender responsive in order to address imbalances in the way crisis vulnerability will evolve.

In summary, if growth in many parts of the world during the heady boom times before 2008 was not beneficial for numerous poor families, there is good reason to wonder whether recovery from this crisis will be any different if governments do not emphasize more pro-poor and gender-sensitive policies and policies that specifically protect particularly vulnerable groups such as children and those marginalized in the informal economy.

3. Policies Toward a More Inclusive Recovery

In allocating public sector resources, countries will need to take decisive steps in 2010 and beyond in order to stage a strong crisis recovery that preserves both their human and economic development prospects. While not necessarily exhaustive and comprehensive, the following two main—and quite possibly synergistic—policy areas are mentioned here: a) undertaking countercyclical social spending and investments; and b) strengthening social protection systems with a specific focus on vulnerable groups. Both require actions in a third area: carving more fiscal space to carry out these policies.

3.1. Countercyclical social spending and investments

Recent empirical evidence in the industrialized countries point to the stabilization role of countercyclical social budgets. In OECD countries, there is evidence that age- and health- related social expenditures react to the business cycle in a stabilizing manner (Darby and Melitz, 2008). Furthermore, a recent empirical analysis of social spending in these countries suggests that it could be used to smooth up to 16 percent of a shock to GDP (Furceri, 2009:9). Moreover, lower income families are more likely to spend rather than save, facilitating a more robust stimulus effect. These studies suggest that government spending in social areas could have a more stabilizing effect on a country's GDP as compared to government spending as a whole.

³⁵ McCarty, Corner and Guy (2009) and Corner (2009).

Nevertheless, evidence from past crises often point to a contraction in social spending at precisely the time when it is needed most. For instance, during Mexico's *Tequila crisis* in the mid-1990s, Cutler and others (2002:280) noted a key policy paradox: "Countries experiencing economic crises have found that they reduce the ability to provide social services to the poor, just as the needs of the poor increase." Per capita public health expenditures in Mexico fell by about 15 percent during the period 1994-1996. Similarly, an analysis of Argentina's budget trends in the 1980s and 1990s, which were marked with economic volatility, revealed that spending on targeted social assistance and employment programs was more vulnerable to aggregate spending cuts, compared to more universal social services. Social spending in general and social spending targeted at the poor in particular were typically cut during periods of fiscal austerity (Ravallion, 2002).

Therefore, social spending and investments—including the array of investments and recurrent expenditures that preserve well-functioning and well-resourced social services such as in education, health and other social sectors—should be ring fenced, if not increased, in order to preserve countries' pre-crisis investments in the social sectors. This is critical in preventing the crisis from causing permanent harm to children (by harming their future capabilities), families (by pushing them deeper into poverty and weakening their resilience) and indeed entire countries (by setting back human capital and human development). Some may argue to preserve only the core components of these social sector spending and investments. This is a risky strategy given that the demand for social services has, de facto, increased as a result of the crisis. As in past crises, it is likely that millions of poor and low income families have shifted from private to public providers of education, health and other services, straining existing public sector capacities. And this is on top of already high demand for scaling-up these services in many countries even before the crisis broke out. Now is not the time to scale back—doing so risks undermining the hard fought gains and achievements in many developing countries' social sectors in recent years. Child friendly budgets will be critically needed in the medium term.

3.2. Strengthening social protection

Spending on nutrition programs is a particularly important area for action, given that the combined effects of the food crisis and the global economic slowdown are likely to persist in many parts of the world. Nutrition security for many poor families, and notably children, was severely compromised due to food price volatility since 2008. Despite relaxing in recent months, food prices in many parts of the developing world remain well above their long term averages, and many families continue to be affected by the erosion of their purchasing power as a result of the economic slowdown (Mendoza and Torres, 2010). In the poorest parts of the developing world, food and nutrition supplementation will be critical.

These types of interventions could be seen within the broader framework of strengthening social protection systems. Child-sensitive social protection, including components like guaranteed work schemes, targeted cash transfers to poor families (and notably women), school feeding and stronger child protection services, have been proven to have a strong effect on reducing mortality risk, improving education and health outcomes, protecting children from abuse and harm (as the risks may increase during a downturn), and improving the wellbeing of children. In order to resuscitate growth in a way that is pro-poor and ensures that the recovery of household

incomes—notably among the poor—is robust and sustained, building stronger social protection systems could be key components of the over-all crisis response.³⁶

For many countries, the present crisis offers an opportunity to channel more resources into and dramatically scale up (covering more components), scale out (covering more families and beneficiaries), and strengthen their social protection systems. For countries with relatively more developed systems, part of the response could involve increasing benefits for already pre-existing beneficiaries of programs, and another is to increase the coverage of poor families, since most existing systems do not yet cover all of the poor. With the exception of programs like Oportunidades in Mexico and Bolsa Familia in Brazil, most countries still do not have programs that cover the majority of the poor. In addition, even programs like Bono de Desarrollo Humano in Ecuador which have high coverage of the poor could still be boosted in terms of their benefits. It is likely that poor families' purchasing power has been eroded continuously since 2008 by the combined effects of factors such as high prices of basic commodities (despite recent relaxation of food prices), slowdown in entrepreneurial and other income sources (e.g. remittances) and a tightening of the labour market. In many countries, the design and expansion of social protection systems will need to reconcile this potential trade-off between coverage of the poor and depth and effectiveness of the policy intervention for each beneficiary reached.

Introducing a “surge” component is also particularly useful, given that many “new poor” and low income families will need social protection and demand social services. If one takes a long-term view whereby more frequent crises and income shocks are possible, dealing with this group of transitory poor requires a certain degree of flexibility in countries' social protection systems. Innovative interventions that allow for countercyclical safety nets to quickly kick-in, perhaps by allowing beneficiaries to self-select into these programs, may prove useful and timely. Guaranteed work schemes are one such example, providing the poor a last resort option to earn some minimum income level, while not offering more than free market wages so as to encourage graduation out of the program when the economy picks up and other opportunities become available.

A brief review of selected social protection responses to the economic crisis suggests that many developing countries are boosting their social protection programs not just in response to the present crisis, but also with a long term view to the transformative, poverty and inequality reduction, and safety net aspects of their social protection systems. Ultimately, strong social protection and less poor people will be the main factors behind greater resilience against future crises. Protecting the most vulnerable now—including interventions targeted specifically at vulnerable groups such as children and women—will also help to prevent the transmission of the crisis to the next generation.³⁷ The following examples of government interventions, launched during the 2008-2009 period, help to highlight the stronger political commitment in this area.³⁸

³⁶ When designed to include educational, child and maternal health, child protection and food distribution among other critical components, more robust social protection systems could not only provide temporary relief to the poor and new poor, but they could also have a potential to be an effective long-term policy for making periods of growth much more inclusive and possibly lifting households out of poverty (Ravallion, forthcoming).

³⁷ Mendoza (2009a).

³⁸ The following are drawn from ADB (2009), Filho (2009) and Grosh and Andrews (2009).

- **Brazil** boosted its Bolsa Familia social protection program by increasing cash transfers to existing poor beneficiaries by some 10 percent and then increasing its coverage to include an additional 1.3 million more families.
- **Guatemala** initiated a conditional cash transfer program in 2008, Mi Familia Progresá, which will provide monthly health and nutrition transfers to families with children under age six, and additional transfer for education to families with at least one child between 6 and 15 attending primary school or preschool. Visits to health care centers and use of a basic package of nutritional and preventive maternal-child health care services, as well as regular school attendance are required under the program. The conditional cash transfer program is expected to cover 45 priority municipalities in 2008 and 125 of the country's 333 municipalities (i.e. 500,000 families) by the end of 2009.
- **Nepal** continued to build on its existing social protection initiatives by providing a monthly allowance to ethnic groups at risk, irrespective of age, persons of low caste, single women, and people of the mountainous Karnali Zone above the age of 60, as well as all other citizens above the age of 70. The government is also in the process of piloting a child grant program and continuing its work with donors and development agencies to build towards a more comprehensive social protection policy.
- **Pakistan** initiated a domestic policy discourse on the crisis culminating in a report titled "Economic Stabilization with a Human Face". In addition to economic reform recommendations the report pushed for a more robust social protection response to the crisis. The latter includes an Employment Guarantee Scheme in poor districts, increasing microfinance and housing access for the poor, and increasing coverage of the Benazir Income Support Programme which is slated to cover 1.8 million poor families in 2009, and later expanded to cover 5 million families in 2010.
- **Philippines** expanded its key social protection programs, such as the Pantawid Pamilyang Pilipino Program (4Ps), which provides cash grants under particular conditions to poor households, with a goal to reach 700,000 households in 2009; the Self-Employment Assistance Kaunlaran, which provides capital assistance and a capacity building program for livelihood projects; and the Food for School program which provides rice allocations to elementary school children.
- **Senegal** boosted its social protection for mothers and young children by creating a cash transfer program to vulnerable mothers of children under five, accompanied by a strong communication campaign on maternal and child nutrition; designing a community-driven nutrition strategy involving growth monitoring for children under two, nutrition education for mothers, provision of iron and vitamin A supplements, de-worming and insecticide treated benefits; and providing support to sectoral and national nutrition policies, encompassing periodic distribution of micronutrient supplements, and supervision of nutrition services.
- **Vietnam** nearly doubled its social safety net budget in 2009 compared to 2008. Its array of crisis responses include a one-off additional financial assistance to poor households, housing support for the poor, boosting existing social assistance programs, such as the program for poverty reduction in ethnic minority and mountainous areas, i.e. Program 135, and the health insurance program for the poor and near poor.

Notwithstanding these promising examples, many other developing countries have not yet taken similar steps. Even for those that have, a much greater effort needs to be made so that social protection and social spending addresses the distinct challenges faced by different vulnerable groups, spanning across rural and urban, gender, migrants and non-migrants, boys and girls, and others. Many policy interventions tend to be very broad-based, focusing on boosting economic sectors such as infrastructure and the financial sectors, or perhaps emphasizing a few tools as “silver bullets” that solve all problems (e.g. conditional cash transfers). In many cases, a generic “pro-poor” approach tends to gloss over the need for nuanced policy responses to address deeper inequalities, including those reflected in gender and some forms of social exclusion.³⁹

Women, socio-ethnic groups and other groups in society (e.g. children and adults with disabilities) often face various forms of exclusion, including in the labour market, access to education, and even the political process. It is critical that crisis response and recovery policies also address these inequities, with a view towards more targeted and tailored policies. Due to gender based inequities and gender roles, women are particularly vulnerable. In many parts of the world, women tend to have less access to education, financial and other resources, and are more likely to face the brunt of the household coping and adjustment to the income shock, by having to work longer (often for much less money), take on less secure and more hazardous jobs in the informal economy (e.g. waste-picking as noted earlier), and could be the victims of violence during periods of difficulty. Girls are similarly vulnerable, and could also face discrimination in their access to education, health and other human capital investments (Mendoza, 2009a). A possible by-product of generic and one-size-fits-all approaches is that policy responses will not address—and perhaps exacerbate—the poverty and inequity generated by the crisis. An example noted earlier is that some countries have boosted sectors dominated by men (e.g. infrastructure) while failing to emphasize safety nets for sectors disproportionately represented by women (e.g. textiles and other export sectors).

All this underscores the need for a more nuanced analysis of the impact of crises and policies on different social groups based on among other dimensions, gender, age, religion, ethnicity, geographical location, occupation and health status.⁴⁰ Resources geared towards social protection and social spending should not only be boosted, they also need to be deployed in a smarter way.

3.3. Carving out fiscal space to promote policies for an inclusive recovery

A possible two-fold pro-poor countercyclical strategy is to preserve, if not increase, social spending and investments as well as use part of these resources to boost social protection systems. It will be critical to ensure that the necessary resources are mobilized and allocated to support a more inclusive social and economic recovery. There are a number of options to carve out fiscal space, and a context-specific analysis will be necessary to outline all the possible

³⁹ While there are various ways to define social exclusion, one approach focuses on the extent that: a) social interactions are largely constrained within a group of people; and b) membership in the group influences access to opportunities for socioeconomic advancement. Exclusion along ethnicity, religion, race, gender and other lines could therefore serve to prevent access to jobs, credit, schooling opportunities and health care and other basic services options. Often, social exclusion is also marked by weak voice and representation in public decisionmaking (IDB, 2007).

⁴⁰ See among others Atal, Nopo and Winder (2009) and UN (2009).

options. Nevertheless, here it is possible to describe a few options, if only as an illustration of what is possible.

For some countries, “rainy day funds” and other precautionary resources replenished during the boom times do afford some fiscal space to undertake these types of spending and investments.⁴¹ For example, there is evidence that reserve holding has been used in recent years as a strategy to self-insure against economic and financial shocks.⁴² Nevertheless, the IMF recently found evidence that many developing countries did not draw down on their reserves to any significant degree. Indeed, some have even begun to re-accumulate reserves.⁴³ Now that both the economic and human development opportunity costs of holding these reserves are relatively higher than in the past, a strong case could be made to try and invest some of these resources in the social sectors since the “rainy day” has finally come.

For example, Chile’s structural surplus target (equivalent to 1 percent of GDP) enabled it to accumulate assets to help address its debt challenges as well as meet future public sector commitments. By late 2008, Chile had accumulated resources owing to the recent boom period of higher copper prices, and its Economic and Social Stabilization Fund (previously called the Copper Buffer Fund) and the Pension Reserve Fund had been well-stocked with resources amounting to 18 percent of GDP (French-Davis, 2010:9). Chile was therefore well positioned to undertake a strong counter-cyclical policy when the crisis broke out in 2008-2009. In 2009, Chilean policymakers put together a 14.5 percent growth in public spending even though fiscal revenues fell by 23.4 percent that same year. A key component of its stimulus was the direct transfer of around \$80 to each family dependent among the country’s low income families, benefitting some 4 million people (ibid:12).

Similarly, Brazil was able to carve out fiscal space for its countercyclical fiscal policies in 2008-2009 owing in large measure to the \$210 billion in reserves it had accumulated before the crisis. As part of its stimulus package, it increased its transfers through social security benefits, unemployment insurance and the minimum-income program *Bolsa Familia* from a total of 6.9 percent to 8.6 percent of GDP (Barbosa, 2010:2). Policymakers also took the opportunity of the crisis to introduce a structural response to the country’s housing challenges by introducing *Minha Casa, Minha Vida Program* which seeks to provide subsidized housing to some 1,000,000 poor and lower-middle-income families (ibid:8). This program was essentially a win-win, since it not only addressed a long-term challenge in the country’s housing sector, it also boosted the stimulus package in a way that was much more labour intensive and pro-poor.

Depending on country circumstances, a variety of strategies could be pursued to try and expand fiscal space to boost spending and investments directed at the social sectors—spanning the re-allocation of resources (perhaps spending less on the military and more on basic education and health), the use of reserves and tapping multilateral financing. Tax measures could also help mobilize more resources for social spending and investments—for instance reforms in Mexico’s income taxes passed into law in November 2009 helped the country to shore up financing for its

⁴¹ For a discussion in the case of Latin America, see Fernandez-Arias and Montiel (2009).

⁴² Mendoza (2010).

⁴³ Blanchard, Faruqee and Klyuev (2009).

crisis response policies.⁴⁴ Another example is Brazil's Provisory Contribution over Financial Movements (CPMF) tax which was set at 0.38 percent levied on paying bills online and major withdrawals. Before it expired in 2007, it was raising an estimate \$20bn per year and funded an estimated 87 percent of the country's key social protection programme, *Bolsa Familia*.

Nevertheless, the introduction of new (or higher) taxes should also form part of a coherent over-all strategy to promote a robust and more inclusive social and economic recovery. In cases where some forms of progressive taxes are reduced or scrapped as part of the stimulus, and less progressive tax measures are introduced, then this could erode the pro-poor nature of the over-all recovery process. It also potentially calls into question issues of social justice and rights, to the extent that policy responses may be biased against the poor who are not only the least culpable for the excesses that drove the global financial meltdown—they are also among the most harmed and will potentially bear the brunt of the social and economic adjustment (including debt servicing costs) required to deal with the aftermath.

While the main message of this paper is to try to address in a very immediate way the array of challenges related to the present global economic crisis, it should also be noted that—as the experience of Brazil, Chile and other countries show—the time to carve out fiscal space for the social sectors covers planning over the entire business cycle, and notably during the boom time itself. For example, countries with extractive industries could try to use the revenues during a boom period to try and help smooth social spending and investments during difficult times. A similar logic applies to the use of foreign reserves. However, many low income countries are unable to mount effective countercyclical social spending policies due to fundamental challenges related to governance of resources and effective public finance. Therefore, a key area of action points to the necessary institutional innovations to help ensure that budgets and policymaking are sufficiently participatory, transparent and accountable.⁴⁵

Finally, support from donors and the international financial institutions will play a key role for many low income countries that presently lack the means to further expand fiscal space and mount a robust crisis response.⁴⁶ The quality of the recovery, the preservation and strengthening of developing countries' human capital (and thus also the minimization of social and economic costs), and their resulting resilience (or continued vulnerability) to future shocks will hinge on these investment strategies.

⁴⁴ The Mexican government originally proposed to Mexican lawmakers a 2 percent sales tax on all goods that would be designated for anti-poverty programs. This did not receive adequate support; and instead, lawmakers agreed to raise the value added tax rate to 16 percent from 15 percent and raise the top income tax rate to 30 percent from 28 percent. The package of revenue mobilization also included raising taxes on beer makers and some bank deposits (see Gutierrez, 2009).

⁴⁵ For a review of the literature on the management of revenue windfalls and the interaction of countercyclical policies with governance, see among others Arezki and Bruckner (2010) and Doytch, Hu and Mendoza (2010).

⁴⁶ In the present crisis, Kasekende, Brixova and Ndikumana (2010) also discuss the limited options of low income African countries in terms of implementing countercyclical policies.

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